

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the International Offering Circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the International Offering Circular. In accessing the International Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. You acknowledge that the attached International Offering Circular is confidential and intended only for you and you agree you will not forward, reproduce, copy, download or publish the attached International Offering Circular (electronically or otherwise) to any other person.

The International Offering Circular and the offer when made are only addressed to and directed at persons in member states of the European Economic Area (“**EEA**”) who are “qualified investors” (“**Qualified Investors**”) within the meaning of Regulation (EU) 2017/1129, as amended (the “**Prospectus Regulation**”). In addition, the International Offering Circular and the offer when made are only addressed to and directed at persons inside the United Kingdom who are (a) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (b) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (c) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended) in connection with the issue or sale of any securities of Saudi Aramco may otherwise lawfully be communicated or caused to be communicated (all such persons in (1) and (2) above being “**relevant persons**”). This International Offering Circular must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the EEA, by persons who are not Qualified Investors. Any investment or investment activity to which this International Offering Circular relates is available (i) in the United Kingdom, only to relevant persons and (ii) in any member state of the EEA, only to Qualified Investors, and such activity will be engaged in only with such persons.

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, OTHER THAN THE KINGDOM OF SAUDI ARABIA, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING INTERNATIONAL OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE INTERNATIONAL OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** By accessing the International Offering Circular, you shall be deemed to have represented to us that (1) you are, or are acting on behalf of, a person that is purchasing the securities in offshore transactions outside the United States in reliance on exemptions from applicable securities laws; (2) if you are in the United Kingdom, you are a relevant person; (3) if you are in any member state of the EEA, you are a Qualified Investor; (4) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may constitute or give rise to any offer of any securities to the public, other than their offer or resale to Qualified Investors in any member state of the EEA which has implemented the Prospectus Regulation; and (5) if you are outside the United States, United Kingdom and EEA, you are a person into whose possession this International Offering Circular may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

Under no circumstances shall the International Offering Circular constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale, would be unlawful. You are reminded that the International Offering Circular is accessible to you on the basis of your representation above and that you are a person into whose possession the International Offering Circular may be lawfully accessed in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the International Offering Circular to any other person.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and any dealer or any affiliate of such dealer is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by such dealer or such affiliate in such jurisdiction.

**You have access to the International Offering Circular in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Saudi Aramco, the Selling Shareholder or the Joint Bookrunners (as defined in the attached), nor any person who controls them, nor any director, officer, employee nor agent of any of them or affiliate of any of them, accepts any liability or responsibility whatsoever in respect of any difference between the International Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Bookrunners.**

**Restriction:** Nothing herein constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

THE INTERNATIONAL OFFERING CIRCULAR IS IN PRELIMINARY FORM ONLY, IS NOT COMPLETE AND CONTAINS INFORMATION THAT IS SUBJECT TO COMPLETION AND CHANGE. NO OFFER OF SECURITIES WILL BE MADE AND NO INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THIS INTERNATIONAL OFFERING CIRCULAR ALONE, BUT ONLY ON THE BASIS OF THE FINALISED PROSPECTUS OR ON THE BASIS OF THIS INTERNATIONAL OFFERING CIRCULAR AS FINALISED AND COMPLETED BY ANY RELEVANT PRICING NOTIFICATION.

**You are responsible for protecting against viruses and other destructive items.** Accessing this International Offering Circular is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The information in this preliminary international offering circular is not complete and may be changed. This preliminary international offering circular is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted to any person or entity to whom it is unlawful.

**SUBJECT TO COMPLETION  
PRELIMINARY INTERNATIONAL OFFERING CIRCULAR  
DATED 17 NOVEMBER 2019**

**STRICTLY CONFIDENTIAL**

**أرامكو السعودية**  
**saudi aramco**



**Saudi Arabian Oil Company (Saudi Aramco)**

This international offering circular (the “International Offering Circular”) has been prepared by Saudi Arabian Oil Company (Saudi Aramco) (“Saudi Aramco”) in connection with the initial public offering (the “Offering”) of the shares of Saudi Aramco (the “Shares”), consisting of a sale by the Government of the Kingdom of Saudi Arabia (the “Selling Shareholder”) of a portion of the Shares (the “Offer Shares”). The Offer Shares are being offered at a price range of SAR 30 to SAR 32 per Share (the “Offer Price Range”).

Outside the Kingdom of Saudi Arabia (the “Kingdom”), the Offering is being made to institutional investors outside the United States in offshore transactions in reliance on an exemption from applicable securities laws (the “International Offering”). Inside the Kingdom, the Offering is being conducted as a public offering (the “Domestic Offering”). The International Offering is being made solely on the basis of this International Offering Circular, which includes an English language translation of the Arabic language prospectus dated 9 November 2019 that is being utilised solely for the Domestic Offering (the “Preliminary Domestic Offering Prospectus”), as supplemented by a Supplementary Domestic Offering Prospectus, dated 17 November 2019 (together with the Preliminary Domestic Offering Prospectus, the “Domestic Offering Prospectus”).

The final price at which the Offer Shares will be sold (the “Final Offer Price”) and the number of Offer Shares to be sold will be determined at the end of the Book-Building Period (as defined in the Domestic Offering Prospectus) and will be published in international media outlets, as well as on Saudi Aramco’s website).

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**Investing in the Offer Shares involves certain risks and uncertainties. See Section 2 (Risk Factors) of the Domestic Offering Prospectus included in this International Offering Circular for a discussion of certain factors to be carefully considered in connection with a decision to invest in the Offer Shares.**

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Prior to the Offering, there has been no public market for the Offer Shares in the Kingdom or elsewhere. Saudi Aramco has submitted an application to the Capital Market Authority of the Kingdom (the “CMA”) for the registration and admission to listing of the Offer Shares on The Saudi Stock Exchange (the “Exchange” or “Tadawul”). Trading of the Shares is expected to commence after all relevant legal requirements and procedures have been completed. An announcement of the commencement of trading of the Shares will be made on Tadawul’s website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

**The Offer Shares are not transferable except in accordance with the restrictions described in “Transfer Restrictions” of this International Offering Circular and all applicable laws.**

Qualified Foreign Investors will be permitted to trade in the Shares in accordance with the QFI Rules and Foreign Strategic Investors will be permitted to trade in the Shares in accordance with FSI Instructions (each as defined in the Domestic Offering Prospectus). Furthermore, non-Saudi nationals who are not resident in the Kingdom and institutions incorporated outside the Kingdom (other than Qualified Foreign Investors and Foreign Strategic Investors) (each a “Foreign Investor”) will be permitted to acquire an economic interest in the Shares by entering into a swap agreement with a person authorised by the CMA to acquire, hold and trade in Offer Shares on the Exchange on behalf of a Foreign Investor (the “Authorised Person”). Under such swap agreements, the Authorised Person will be the registered legal owner of such Offer Shares.

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*Joint Global Coordinators and Joint Bookrunners*

**Citigroup  
HSBC  
Morgan Stanley**

**Credit Suisse  
J.P. Morgan  
NCB Capital**

**Goldman Sachs International  
BofA Securities  
Samba Capital**

*Joint Bookrunners*

**Al Rajhi Capital  
Credit Agricole CIB  
GIB Capital  
Saudi Fransi Capital**

**Banco Santander  
Deutsche Bank  
Mizuho International  
Société Générale**

**BNP PARIBAS  
EFG Hermes  
RBC Capital Markets  
SMBC Nikko**

**BOC International  
First Abu Dhabi Bank  
Riyad Capital  
UBS Investment Bank**

*Special Advisors*

**Lazard**

**M. Klein & Company**

**Moelis & Company**

## TABLE OF CONTENTS

IMPORTANT INFORMATION .....	W-1
SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES .....	W-2
NOTICE TO PROSPECTIVE INVESTORS .....	W-4
ACCESS PRODUCTS .....	W-18
TRANSFER RESTRICTIONS .....	W-19
LEGAL MATTERS .....	W-20
APPENDIX A—SUPPLEMENTARY DOMESTIC OFFERING PROSPECTUS .....	W-21
APPENDIX B—PRELIMINARY DOMESTIC OFFERING PROSPECTUS .....	W-22

## IMPORTANT INFORMATION

This International Offering Circular is confidential and is being furnished by Saudi Aramco in connection with an offering exempt from registration under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), solely for the purpose of enabling prospective investors to consider the purchase of the Offer Shares described herein. The information contained in this International Offering Circular has been provided by Saudi Aramco and other sources identified herein.

No representation or warranty, express or implied, is made by any of Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Goldman Sachs International, HSBC Saudi Arabia, J.P. Morgan Securities plc, Merrill Lynch Kingdom of Saudi Arabia, Morgan Stanley & Co. International plc, NCB Capital Company or Samba Capital & Investment Management Company (together, the “**Joint Global Coordinators**”), Al Rajhi Capital, Banco Santander, S.A., BNP PARIBAS, BOCI Asia Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, EFG Hermes KSA, First Abu Dhabi Bank PJSC, GIB Capital, Mizuho International plc, RBC Europe Limited, Riyadh Capital, Saudi Fransi Capital, Société Générale, SMBC Nikko Capital Markets Limited or UBS AG, London Branch (together with the Joint Global Coordinators, the “**Joint Bookrunners**”) or Lazard Frères SAS (“Lazard”), M. Klein and Company and Moelis & Company UK LLP (“Moelis & Company”) (together, the “**Special Advisors**”) as to the accuracy or completeness of the information set forth in this International Offering Circular, and nothing contained in this International Offering Circular is, or shall be relied upon as a representation in this respect, whether as to the past or the future. None of the Joint Bookrunners, the Special Advisors or any of their respective affiliates, directors or employees assume any responsibility for the accuracy or completeness of contents of this International Offering Circular or for any other statement made or purported to be made by them, or on their behalf, in connection with Saudi Aramco, the Offer Shares or the International Offering. Each of the Joint Bookrunners, the Special Advisors and their respective affiliates, directors or employees accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

The Joint Bookrunners and the Special Advisors are acting exclusively for Saudi Aramco and no one else in connection with the International Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the International Offering and will not be responsible to anyone other than Saudi Aramco for providing the protections afforded to their respective clients nor for giving advice in relation to the International Offering or any transaction or arrangement referred to in this International Offering Circular.

None of Saudi Aramco, the Selling Shareholder or any of the Joint Bookrunners or the Special Advisors or any of their respective representatives, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

The investors also acknowledge that: (i) they have not relied on the Joint Bookrunners, the Special Advisors or any person affiliated with the Joint Bookrunners or the Special Advisors in connection with any investigation of the accuracy of any information contained in this International Offering Circular or their investment decision; (ii) they have relied only on the information contained in this document; and (iii) no person has been authorised to give any information or to make any representation concerning Saudi Aramco or its subsidiaries or the Offer Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by Saudi Aramco, the Joint Bookrunners or the Special Advisors.

This International Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, any Offer Shares offered by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

Neither the delivery of this International Offering Circular nor any sale made hereunder shall under any circumstances imply that there has been no change in Saudi Aramco’s affairs or that the information set forth in this International Offering Circular is correct as of any date subsequent to the date hereof.

The distribution of this International Offering Circular and the sale of the Offer Shares may be restricted by law in certain jurisdictions. Persons into whose possession this International Offering Circular comes are required to inform themselves about and observe any such restrictions.

The Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state of the United States, and may not be offered or sold, except in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in accordance with applicable securities laws of any state of the United States. The Offer Shares are being offered and sold outside the United States to certain persons in offshore transactions in reliance on an exemption from applicable securities laws.

In connection with the International Offering, any of the Joint Bookrunners or any of their respective affiliates, may take up a portion of the Offer Shares in the International Offering as a principal position and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the International Offering. Accordingly, references in the International Offering Circular to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Joint Bookrunners or any of their respective affiliates acting in such capacity. In addition, certain of the Joint Bookrunners or their affiliates may enter into financing arrangements (including swaps, warrants or contracts for differences) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. None of the Joint Bookrunners intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

For the purpose of complying with the Rules on the Offer of Securities and Continuing Obligations issued by the Board of the CMA (the “CMA Rules”) only, PricewaterhouseCoopers Public Accountants has given and has not withdrawn its written consent to the issue of the Domestic Offering Prospectus with the inclusion therein of its (i) name, (ii) logo, (iii) reports on the review of the condensed consolidated interim financial report of the Company for the three and nine-month periods ended 30 September 2019 (unaudited) and for the three and six-month periods ended 30 June 2019 (unaudited) and (iv) reports on the audit of the consolidated financial statements of the Company as at and for the years ended 31 December 2018 and 31 December 2017, all in the form and context in which they are respectively included in the Domestic Offering Prospectus. A written consent under the CMA Rules is different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the U.S. Securities Act, which is applicable only to transactions involving securities registered under the U.S. Securities Act. As the Shares have not been and will not be registered under the U.S. Securities Act, PricewaterhouseCoopers Public Accountants has not filed a consent under Section 7 of the U.S. Securities Act.

With respect to the unaudited financial information of the Company for the three and nine-month periods ended 30 September 2019 and 2018 and the three and six-month periods ended 30 June 2019, included in the Domestic Offering Prospectus, PricewaterhouseCoopers Public Accountants reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports with respect to the three and nine-month periods ended 30 September 2019 and with respect to the three and six-month periods ended 30 June 2019 included elsewhere in the Domestic Offering Prospectus state that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied.

The term “Experts” as used in the Domestic Offering Prospectus is different from that as defined under the U.S. Securities Act, which is applicable only to transactions involving securities registered under the U.S. Securities Act. The reference to “Experts” in the Domestic Offering Prospectus is not made in the context of the U.S. Securities Act but solely as the term is used in the context of the Domestic Offering.

## **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

Saudi Aramco is a joint stock company incorporated in the Kingdom and a substantial portion of its assets and operations are located there. As a result, it may not be possible for investors to effect service of process on Saudi Aramco outside the Kingdom.

Pursuant to the Company’s Bylaws, the competent courts and the relevant judicial committees of the Kingdom shall be the sole and exclusive forum for any action or proceeding brought by the Company or against it, including in connection with claims by shareholders. All such disputes shall be decided applying the substantive and procedural law of the Kingdom. For further information, see Section 13.13.35 (*Disputes*) of the Domestic Offering Prospectus.

Furthermore, in the absence of a treaty for the reciprocal enforcement of foreign judgments with the jurisdiction in which a judgment is obtained, the courts of the Kingdom are unlikely to enforce a judgment obtained in courts

outside the Kingdom without re-examining the merits of the claim, including any judgment predicated upon United States federal securities laws or the securities laws of any state or territory within the United States. In addition, the courts of the Kingdom may (1) decline to enforce a foreign judgment if certain criteria are not met, including, but not limited to, compliance with public policy of the Kingdom, or (2) decline to entertain original actions brought in the Kingdom against Saudi Aramco or its directors or officers predicated upon the securities laws of another jurisdiction.

## NOTICE TO PROSPECTIVE INVESTORS

THE INTERNATIONAL OFFERING IS BEING MADE ON THE BASIS OF THIS INTERNATIONAL OFFERING CIRCULAR ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES IN THE INTERNATIONAL OFFERING MUST BE BASED ON THE INFORMATION CONTAINED HEREIN.

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, RECIPIENTS OF THIS INTERNATIONAL OFFERING CIRCULAR AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF ANY SUCH RECIPIENT MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE INTERNATIONAL OFFERING AND ALL MATERIALS OF ANY KIND, INCLUDING OPINIONS OR OTHER TAX ANALYSES, THAT ARE PROVIDED TO THE RECIPIENTS RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE.

IF YOU PURCHASE OFFER SHARES IN THE INTERNATIONAL OFFERING, YOU WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS AND AGREEMENTS DESCRIBED BELOW WITH RESPECT TO THAT PURCHASE.

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### NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA

This International Offering Circular is only addressed to and directed at persons in member states of the European Economic Area (the “EEA”) who are qualified investors (“**Qualified Investors**”) within the meaning of Regulation (EU) 2017/1129, as amended (the “**Prospectus Regulation**”).

In relation to each member state of the EEA (each, a “**Member State**”) no Offer Shares have been offered or will be offered pursuant to an offering to the public in that Member State, except if the Offer Shares are offered to the public in that Member State at any time under the following exemptions under the Prospectus Regulation:

- (a) to any legal entity which is a Qualified Investor;
- (b) to fewer than 150 natural or legal persons (other than Qualified Investors) subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

*provided* that no such offer of Offer Shares referred to in (a) to (c) above shall result in a requirement for the publication by Saudi Aramco or any of the Joint Bookrunners of a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation. Each person who initially acquires Offer Shares or to whom any offer is made will be deemed to have represented, warranted and agreed to and with the Joint Global Coordinators, the Joint Bookrunners and Saudi Aramco that it is a Qualified Investor.

The expression an “**offer of Offer Shares to the public**” in relation to any Offer Shares in any Member State means the communication in any form and by any means of sufficient information of the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares.

**Information to Distributors:** Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended (“**MiFID II**”); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares the subject of the International Offering have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the “**Target Market Assessment**”). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other advisor) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the International Offering. For the avoidance of doubt, the Target Market Assessment does not



constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares. Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

This International Offering Circular is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Financial Promotion Order**”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Offer Shares may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “**relevant persons**”). This International Offering Circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this International Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons.

#### **NOTICE TO PROSPECTIVE INVESTORS IN ARGENTINA**

The Offer Shares have not been registered with the *Comisión Nacional de Valores* and may not be offered publicly in Argentina. The Offer Shares may not be publicly distributed in Argentina. The public in Argentina have not and will not be solicited in connection with this International Offering Circular. Prospective Argentine investors are encouraged to consult a tax advisor as to the particular Argentine tax consequences derived from the holding of, and any transactions relating to the Offer Shares. The International Offering is not a public offering, and as such it is not and will not be registered with, or authorised by, the applicable enforcement authority. By buying Offer Shares, you accept and recognise that you understand the risks of such transaction and that you have previously received adequate financial and legal advice.

#### **NOTICE TO PROSPECTIVE INVESTORS IN AUSTRALIA**

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission in relation to the International Offering. This International Offering Circular does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001 (the “**Corporations Act**”) and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.

Any offer in Australia of the Offer Shares may only be made to persons (“**Exempt Investors**”), who are “sophisticated investors” (within the meaning of section 708(8) of the Corporations Act), “professional investors” (within the meaning of section 708(11) of the Corporations Act), or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the Offer Shares without disclosure to investors under Chapter 6D of the Corporations Act.

The Offer Shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the International Offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring Offer Shares must observe such Australian on-sale restrictions.

#### **NOTICE TO PROSPECTIVE INVESTORS IN BAHRAIN**

This International Offering Circular has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Offer Shares will be made in Bahrain and this International Offering Circular is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

The Offer Shares have not been offered or sold, and will not be offered or sold to any person in Bahrain except on a private placement basis to persons who are “accredited investors”. For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of \$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than \$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

#### **NOTICE TO PROSPECTIVE INVESTORS IN BRAZIL**

The Offer Shares have not been and will not be issued nor placed, distributed, offered or negotiated in the Brazilian capital markets. Neither Saudi Aramco nor the International Offering have been or will be registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*). Therefore, the Offer Shares have not and will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE BRITISH VIRGIN ISLANDS**

This International Offering Circular has not been, and will not be, registered under any laws or regulations of the British Virgin Islands, nor has any regulatory authority in the British Virgin Islands passed comment upon or approved the accuracy or adequacy of it. This International Offering Circular does not constitute an offer or invitation (whether direct or indirect) to any person in the British Virgin Islands to purchase or subscribe for any Offer Shares and no person in the British Virgin Islands may purchase or subscribe for any Offer Shares.

#### **NOTICE TO PROSPECTIVE INVESTORS IN BRUNEI**

This International Offering Circular is not a prospectus for the purposes of the Brunei Companies Act, Cap. 39 and/or the Brunei Securities Market Order, 2013 and has not been registered or filed as such with either the Registrar of Companies or the *Autoriti Monetari Brunei Darussalam*. The Offer Shares are not licensed under the Securities Market Order, 2013 and accordingly the Offer Shares are only permitted to be sold or offered for subscription or sale to persons outside Brunei Darussalam. This International Offering Circular may not be distributed or circulated in Brunei Darussalam whether directly or indirectly for the purposes of the International Offering or for any sale of the Offer Shares and is not an offer to sell the Offer Shares to persons in Brunei Darussalam or an invitation to persons in Brunei Darussalam to make an offer to buy or subscribe for the Offer Shares.

Furthermore, any dealing (such as buying, selling, making arrangement or advice) of securities and investments in Brunei Darussalam is a regulated activity in Brunei Darussalam and the operator, manager or representatives of the securities and investments must acquire a capital markets services licence under the Securities Market Order, 2013 to conduct such dealings. None of the operator, manager or representatives of the Offer Shares holds the requisite capital markets services licence.

#### **NOTICE TO PROSPECTIVE INVESTORS IN CANADA**

The Offer Shares may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this International Offering Circular (including any amendment hereto) contains a misrepresentation, *provided that*, the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (for the purposes of this paragraph, “NI 33-105”), the Joint Bookrunners are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with the International Offering.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE CAYMAN ISLANDS**

This International Offering Circular has not been approved by any governmental or regulatory authority in the Cayman Islands and does not constitute an offer or invitation to the public in the Cayman Islands to purchase or subscribe for any Offer Shares.

#### **NOTICE TO PROSPECTIVE INVESTORS IN CHILE**

Neither the Offer Shares nor their issuer have been registered in the Offshore Securities Registry (*Registro de Valores Extranjeros*) kept by the Commission for the Financial Market (*Comisión para el Mercado Financiero*), so neither the former nor the latter are subject to the supervision of said regulator and the Offer Shares cannot be publicly offered in Chile. This International Offering Circular and other offering materials relating to the offer or sale of the Offer Shares does not intend to be a public offer of, or an invitation to subscribe for or purchase, the Offer Shares in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not “addressed to the public at large or to a certain sector or specific group of the public”).

*Ni las Offer Shares ni su emisor han sido inscritos en el Registro de Valores Extranjeros de la Comisión para el Mercado Financiero, por lo que ni las unas ni el otro se encuentran sujetos a su supervisión y las Offer Shares no pueden ser ofrecidas públicamente en Chile. Este offering circular y cualquier otro material relativo a la oferta o venta de las Offer Shares no tienen por objeto realizar una oferta pública, ni tampoco una invitación a suscribir o comprar Offer Shares, salvo a personas individualmente identificadas de acuerdo a una oferta privada, según el significado de este término bajo el artículo 4 de la Ley de Mercado de Valores (una oferta que no se encuentra dirigida al público en general o a ciertos sectores o a grupos específicos de este).*

#### **NOTICE TO PROSPECTIVE INVESTORS IN COLOMBIA**

The Offer Shares have not been and will not be authorised by the Colombian Superintendence of Finance (*Superintendencia Financiera de Colombia*) and will not be registered with the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*). Therefore, the Offer Shares may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Part IV of Decree 2555 of 2010 and Regulation 029 of 2014 issued by the Colombian Superintendence of Finance, as modified, complemented or substituted from time to time, to market and offer the Offer Shares in Colombia or to Colombian residents. The Offer Shares cannot and will not be publicly offered in Colombia, but may be “promoted” (as such term is defined by Article 4.1.1.1.1. of Decree 2555 of 2010) to a determined, limited number of persons (less than 100) in Colombia by the authorised personnel of a firm authorised to execute “promotion” activities of foreign securities in Colombia. The Offer Shares have not been and will not be registered on the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or before the Colombian Stock Exchange. Accordingly, the distribution of any documentation in regards to the International Offering will not constitute a public offering of securities.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE DOMINICAN REPUBLIC**

The Offer Shares will not be offered to the general public in the Dominican Republic, so Dominican Republic rules of public offering will not be applicable to the International Offering. Therefore, neither this International Offering Circular, Saudi Aramco, nor any Offer Shares have been or will be registered with the *Superintendencia de Valores de la República Dominicana* (Dominican Republic Securities Regulator), nor is it the intent of Saudi Aramco to, directly or indirectly, target any Dominican Republic investors.

This International Offering Circular and other offering materials relating to the International Offering may be supplied to those Dominican Republic investors who have expressly requested them. Such materials may not be distributed to any person or entity other than the intended recipients.

Any resident of the Dominican Republic, or Dominican Republic tax person, who acquires Offer Shares must rely on their own examination of the terms of the International Offering to determine their ability to invest and acquire the Offer Shares.

Dominican Republic residents may be taxed under Dominican Republic tax laws, on any profits obtained from the Offer Shares, be it in the form of dividends or any financial gain from the subsequent sale of the Offer Shares. Saudi Aramco has not and will not give tax advice or any opinions regarding tax implications in the Dominican Republic and, as such, any investors must independently evaluate the effect of any applicable taxes before purchasing the Offer Shares.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE DUBAI INTERNATIONAL FINANCIAL CENTRE**

This International Offering Circular relates to an “Exempt Offer” in accordance with (and as defined in) the Market Rules (MKT) Module of the Dubai Financial Services Authority (“DFSA”). This International Offering Circular is intended for distribution only to persons of a type specified in the Market Rules (MKT) Module of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this International Offering Circular nor taken steps to verify the information set forth herein and has no responsibility for this International Offering Circular. The Offer Shares to which this International Offering Circular relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares offered should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this International Offering Circular you should consult an authorised financial advisor.

#### **NOTICE TO PROSPECTIVE INVESTORS IN EGYPT**

Offer Shares may not be offered or sold in any form of general solicitation or general advertising or in a public offering in Egypt, unless the pre-approval of the Financial Regulatory Authority (previously Capital Market Authority) (“FRA”) and/or the Egyptian Exchange (“EGX”) has been obtained. Offer Shares may be offered or sold in Egypt through a private placement only to Egyptian QIBs, or Eligible Individual Investors (each as defined below) and only in accordance with the Public Subscription Notice and the applicable Egyptian law and regulations including the applicable provisions of the Capital Market Law, its Executive Regulations as amended, the EGX Listing Rules and the provisions of the FRA’s Directives no. 48 for the year 2019 concerning private placements.

Each purchaser of Offer Shares in Egypt will be deemed to have represented that it is either an Egyptian QIB or an Eligible Individual Investor within the meaning of the FRA Directives no. 48 for the year 2019 concerning private placements.

An Egyptian QIB is an institutional investor which means:

- Egyptian banks and foreign banks’ branches subject to the supervision of the Egyptian Central Bank;
- Investment banks;
- Portfolio formation and management companies;
- Insurance and re-insurance companies;
- Venture capital companies;
- Direct investment companies;
- Mortgage finance companies;
- Financial leasing companies;
- Factoring companies;
- Private insurance funds of a portfolio that exceeds EGP 100 Million;
- Investment funds;
- Arab, regional and foreign financial institutions’ investment funds; and
- International and regional financial institutions.

Egyptian QIBs shall have: (i) a minimum equity book value of EGP 20.0 million;; (ii) a minimum investment in securities (excluding securities acquired in the International Offering) of EGP 10.0 million as of the date of the placement; or (iii) a licence to undertake a security related activity and permitted to acquire securities within its objects and permitted activities.

An Eligible Individual Investor is an individual who owns liquid assets of EGP 5.0 million and preferably has experience in stock markets and capital markets for a period of 5 years at least.

#### **NOTICE TO PROSPECTIVE INVESTORS IN GUERNSEY**

The International Offering Circular is not an offer to the public (within the meaning of the International Offering Circular Rules 2018), and is available, and is and may be made, in or from within the Bailiwick of Guernsey, and this International Offering Circular is being provided in or from within the Bailiwick of Guernsey only:

- (a) by persons licensed to do so by the Guernsey Financial Services Commission (the “GFSC”) under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) (the “POI Law”);
- (b) to persons licensed under the POI Law, the Banking Supervision (Bailiwick of Guernsey) Law, 1994, the Insurance Business (Bailiwick of Guernsey) Law, 2002, the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 or the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 by non-Guernsey bodies who (i) carry on such promotion in a manner in which they are permitted to carry on promotion in or from within, and under the law of certain designated countries or territories which, in the opinion of GFSC, afford adequate protection to investors and (ii) meet the criteria specified in section 29(1)(cc) of the POI Law;
- (c) by reverse solicitation; or
- (d) as otherwise permitted by the GFSC.

This International Offering Circular is not available in or from within the Bailiwick of Guernsey other than in accordance with the above paragraphs and must not be relied upon by any person unless made or received in accordance with such paragraphs.

#### **NOTICE TO PROSPECTIVE INVESTORS IN HONG KONG**

This International Offering Circular has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. Please note that (1) Offer Shares may not be offered or sold in Hong Kong by means of this document or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (the “SFO”) and any rules made thereunder, or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Cap. 32) (the “CMO”) or which do not constitute an offer or invitation to the public for the purposes of the CMO or the SFO, and (2) no person shall issue, or possess for the purpose of this issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Offer Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

#### **NOTICE TO PROSPECTIVE INVESTORS IN INDIA**

No offer or invitation to subscribe to, or purchase the Offer Shares is made or intended to be made to the public in India through this International Offering Circular. This International Offering Circular does not constitute a prospectus, offer document, shelf prospectus, information memorandum, notice, circular or advertisement inviting offers from the public for the subscription or purchase of the Offer Shares under any applicable law or regulation in India, including the Companies Act 2013, together with the rules thereunder, each as amended (“Indian Companies Act”) and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended. This International Offering Circular has not been submitted or registered as a prospectus in India, and has not been reviewed, approved, or recommended by any Registrar of Companies in India, the Securities and Exchange Board of India, the Reserve Bank of India, any stock exchange in India or any other Indian statutory or regulatory authority.

Communications or any material relating to the International Offering, including this International Offering Circular, have not been and will not be circulated, issued or distributed, directly or indirectly, in circumstances which would constitute an offer or invitation to subscribe to or purchase the Offer Shares, to the public in India.

Any offer or invitation to offer in respect of the Offer Shares to a person in India shall be made such that the International Offering does not constitute an offer or invitation to offer to the public in terms of applicable laws or regulation in India, including the Indian Companies Act.

Each investor of the Offer Shares acknowledges, represents and agrees that it is eligible to invest in the Offer Shares under applicable laws and regulation in India and that it is not prohibited or debarred under any law or regulation from acquiring, owning or selling the Offer Shares.

#### **NOTICE TO PROSPECTIVE INVESTORS IN INDONESIA**

This International Offering Circular does not constitute a prospectus for a public offering of securities under Indonesian capital market law and regulations. This International Offering Circular may not be distributed directly or indirectly in Indonesia or to any Indonesian entity or Indonesian citizen (person), and the Offer Shares may not be offered or sold, directly or indirectly, in Indonesia or to any Indonesian entity or Indonesian citizen (person), in a manner constituting a public offering on the Offer Shares under the Indonesian Capital Market Law and the applicable regulations of the *Otoritas Jasa Keuangan* (Financial Services Authority) previously known as *Badan Pengawas Pasar Modal dan Lembaga Keuangan* (Capital Market and Financial Institution Supervisory Agency). The offering in Indonesian will only be conducted through the public offering in accordance with the applicable Indonesian capital markets laws and regulations.

This International Offering Circular may not be distributed in Indonesia and the Offer Shares may not be offered to more than Indonesian parties and/or sold to more than 50 Indonesian parties wherever they are domiciled, or to Indonesian residents in a manner which constitutes a public offer under the Law Number 8 of 1995 regarding Capital Markets.

#### **NOTICE TO PROSPECTIVE INVESTORS IN JAPAN**

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**FIEA**”) and disclosure under the FIEL has not been, and will not be, made with respect to the Offer Shares. This International Offering Circular is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

#### **NOTICE TO PROSPECTIVE INVESTORS IN JERSEY**

The circulation of this International Offering Circular in Jersey is exempt from the requirement to seek the consent of the Jersey Financial Services Commission (the “**JFSC**”) pursuant to Article 8 of the Control of Borrowing (Jersey) Law 1958, as amended (“**COBO**”). For the purposes of the exemption under Article 8 of COBO the offering of the Offer Shares is “valid in the United Kingdom” (within the meaning given to that expression under Article 8(5) of COBO) and is circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom. Saudi Aramco has no “relevant connection” (within the meaning given to that expression under Article 8(7) of COBO) with Jersey. Accordingly, the consent of the JFSC under Article 8 of COBO to the circulation of this International Offering Circular in Jersey is not required and has not been obtained.

#### **NOTICE TO PROSPECTIVE INVESTORS IN JORDAN**

Broadly speaking, any marketing or selling of the Offer Shares inside Jordan is permissible provided that: (i) an approval is obtained from the Board of the Jordanian Securities Commission (the “**Commission**”); and (ii) such marketing and selling is done in accordance with the bylaws that the Commission issues for this matter.

Given that the Securities Law came into force in 2017, the Commission did not issue the regulations and bylaws to regulate marketing and selling of the Offer Shares in Jordan. As such, the only requirement at this juncture is to obtain said Commission’s prior approval, which is granted on a case-by-case basis.

In order to get the approval a written request has to be submitted to the Commission. The Board of the Commission assembles at least once every month and they might come back with conditions or further clarifications in order to give their approval. Any marketing of the Offer Shares to Jordanian investors shall be done by way of private placement only. The Offer Shares are being offered in Jordan on a cross border basis

based on one-on-one contacts to no more than 30 potential investors and accordingly the Offer Shares will not be registered with the Commission and a local prospectus in Jordan will not be issued.

Any marketing of the Offer Shares to Jordanian investors shall be done by way of private placement only. The Offer Shares are being offered in Jordan on a cross border basis based on one-on-one contacts to no more than 30 potential investors and accordingly the Offer Shares will not be registered with the Commission and a local prospectus in Jordan will not be issued.

However it is possible that, once the Commission allows the marketing and sale of Offer Shares in Jordan, to require the seller to share with the potential buyers copy of this International Offering Circular. This is not the only medium acceptable. The Commission might allow other ways of sharing the information with the potential buyers.

As the matter is confidential, it is important to note that after the submission of the request mentioned above to sell the Offer Shares, the Commission has the right to distribute the information to 'protect' the investors, which might affect your confidentiality.

As such, an argument has to be made from the outset to ensure that the commission maintains the confidentiality of the information and it is possible to oblige the Commission such confidentiality, which mainly depends on how your request is presented.

#### **NOTICE TO PROSPECTIVE INVESTORS IN KAZAKHSTAN**

Neither the Offer Shares nor this International Offering Circular have been, or are intended to be, registered with the National Bank of Kazakhstan or any other state bodies that may from time to time be responsible for such registration. Information contained herein is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer Offer Shares in Kazakhstan to or for the benefit of any Kazakhstani person or entity, except for those persons or entities that are capable to do so under the legislation of Kazakhstan and any other laws applicable to such capacity of such persons or entities. This International Offering Circular shall not be construed as an advertisement (i.e. information intended for an unlimited group of persons which is distributed and placed in any form and aimed to create or maintain interest in Saudi Aramco and/or its merchandise, trademarks, works, services and/or its securities (including Offer Shares) and promote their sales) in, and for the purpose of the legislation of Kazakhstan.

#### **NOTICE TO PROSPECTIVE INVESTORS IN KUWAIT**

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "KCMA") pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities, and its executive bylaws (each as amended) (the "KCML Rules") together with the various resolutions, regulations, directives and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the marketing and sale of the Offer Shares, the Offer Shares may not be offered for sale, nor sold to more than 50 persons in Kuwait.

The International Offering Circular is not for general circulation to the public in Kuwait nor will the Offer Shares be sold by way of a public offering in Kuwait. The Offer Shares may only be purchased onshore in Kuwait through a licensed person duly authorised to undertake such activity pursuant to the KCML Rules. Investors from Kuwait acknowledge that the KCMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of this International Offering Circular and do not approve the contents thereof or verify the validity and accuracy of its contents. The KCMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of this International Offering Circular. Prior to purchasing any Offer Shares, it is recommended that a prospective holder of any Offer Shares seeks professional advice from its advisors in respect to the contents of this International Offering Circular so as to determine the suitability of purchasing the Offer Shares.

## **NOTICE TO PROSPECTIVE INVESTORS IN LEBANON**

This International Offering Circular does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any Offer Shares in the Lebanese territory, nor shall it (or any part of it), nor the fact of its distribution, form the basis of, or be relied on in connection with, any subscription.

Saudi Aramco has not been, and will not be, authorised or licenced by the Central Bank of Lebanon or the Capital Markets Authority and its Offer Shares cannot be marketed and sold in Lebanon. No public offering, sale, promotion or advertisement of the Offer Shares is being made in Lebanon and no mass-media means of contact are being employed, other than in compliance with the laws and regulations of Lebanon governing the issue, offering and sale of Offer Shares, and in particular Law N° 161 dated 17 August 2011, governing capital markets, Capital Markets Authority Series No. 2000 regarding licensing and registration regulation published on 19 January 2017, Central Bank of Lebanon intermediary circular No. 437 relating to financial operations and activities in financial markets published on 15 December 2016; and Capital Markets Authority Series No. 6000 regarding offering of securities regulation published in August 2017.

This International Offering Circular is aimed at institutions and sophisticated, high net worth individuals only, and this International Offering Circular will not be provided to any person in Lebanon except upon the written request of such person. The persons that will be investing in the Offer Shares have obtained all the information and the necessary financial and legal advice in this respect. The said persons or entities acknowledge that they are aware of the risks associated to their investment in the Offer Shares and are aware that such risks, given the nature of the investment, may engender a loss in respect thereof.

Recipients of this International Offering Circular should pay particular attention to Section 2 (*Risk Factors*) of the Domestic Offering Prospectus. Investment in the Offer Shares is suitable only for sophisticated investors with the financial ability and willingness to accept the risks associated with such an investment, and said investors must be prepared to bear those risks. Saudi Aramco shall not be held liable for any breach of compliance with Lebanese laws and regulations.

## **NOTICE TO PROSPECTIVE INVESTORS IN MALAYSIA**

This International Offering Circular does not constitute an offer or an invitation to subscribe for the Offer Shares in the International Offering. It is being made available to you, at your request for information purposes only. No invitation or offer to subscribe for the Offer Shares is made as the prior recognition of the Securities Commission of Malaysia (“SC”) has not been applied for or will be obtained under the Capital Markets and Services Act 2007 in respect of the International Offering. This International Offering Circular has not been and will not be registered or lodged with the SC in connection with the International Offering in Malaysia. Accordingly, neither this International Offering Circular or any amendment or supplement hereto or any other offering document or other material in relation to the International Offering may be distributed or circulated in Malaysia nor should the Offer Shares be offered for subscription or purchase in Malaysia.

## **NOTICE TO PROSPECTIVE INVESTORS IN MEXICO**

The Offer Shares have not been and will not be registered with the Mexican National Securities Registry (*Registro Nacional de Valores*), maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the “CNBV”) and, as a result, may not be offered or sold publicly or otherwise be the subject of brokerage activities in Mexico, except that the Offer Shares may be offered and sold to investors that qualify as institutional or qualified investors, pursuant to the placement exception set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*).

By the sole acquisition of the Offer Shares, if located in Mexico, the acquirer represents and warrants that it is either an institutional investor (*inversionista institucional*) within the meaning of the Mexican Securities Market Law or a qualified investor (*inversionista calificado*) within the meaning of the Mexican Securities Market Law and the regulations thereunder in effect as of the date hereof.

The information contained in this International Offering Circular has not been reviewed or authorised by the CNBV.



## NOTICE TO PROSPECTIVE INVESTORS IN MONACO

The Offer Shares may not be offered or sold, directly or indirectly, to the public in Monaco other than by a bank licensed to do business in Monaco or a duly authorised Monegasque financial services company. Consequently, this International Offering Circular may only be communicated to banks in Monaco duly licensed by the *Autorité de Contrôle Prudentiel et de Résolution* and Monaco financial services companies licenced under Law 1.338, of September 7, 2007 and subject to the regulation by the “*Commission de Contrôle des Activités Financières*”. Such banks and regulated intermediaries may in turn communicate this International Offering Circular to potential investors.

## NOTICE TO PROSPECTIVE INVESTORS IN NEW ZEALAND

This International Offering Circular has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the “**FMC Act**”). This International Offering Circular does not constitute a product disclosure statement or other disclosure document under the FMC Act and does not purport to include the information required for a product disclosure statement or other disclosure document under the FMC Act. The Offer Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- (a) is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- (b) meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- (c) is large within the meaning of clause 39 of Schedule 1 of the FMC Act; and
- (d) is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act

(each, an “**NZ Wholesale Investor**”).

The Offer Shares applied for by NZ Wholesale Investors must not be offered for sale in New Zealand in the period of 12 months after the date of allotment under the International Offering, except to an NZ Wholesale Investor or where such offer does not require disclosure to investors in accordance with the FMC Act. Any person acquiring Offer Shares must observe such New Zealand on-sale restrictions.

## NOTICE TO PROSPECTIVE INVESTORS IN OMAN

This International Offering Circular does not constitute a public offer of securities in Oman, as contemplated by the Commercial Companies Law of Oman (Royal Decree No. 4/1974) or the Capital Market Law of Oman (Royal Decree No. 80/1998) and the Executive Regulations of the Capital Market Law (issued by Ministerial Decision No.1/2009) or an offer to sell or the solicitation of any offer to buy non-Omani securities in Oman.

This International Offering Circular is strictly private and confidential. It is being provided to a limited number of sophisticated investors (as described in Article 139 of the Executive Regulations of the Capital Market Law) solely to enable them to decide whether or not to make an offer to Saudi Aramco to enter into commitments to invest in the Offer Shares outside of Oman, upon the terms and subject to the restrictions set out herein and may not be reproduced or used for any other purpose or provided to any person other than the original recipient.

Additionally, this International Offering Circular is not intended to lead to the making of any contract within the territory or under the laws of Oman.

The Capital Market Authority of Oman and the Central Bank of Oman take no responsibility for the accuracy of the statements and information contained in this International Offering Circular or for the performance of Saudi Aramco with respect to the Offer Shares nor shall they have any liability to any person for damage or loss resulting from reliance on any statement or information contained herein.

## NOTICE TO PROSPECTIVE INVESTORS IN PANAMA

The Offer Shares have not been registered under the Panamanian Securities Law (Law-Decree No. 1 of July 8, 1999, as amended and restated from time to time, the “**Panamanian Securities Laws**”) with the Panamanian Superintendency of the Securities Market (*Superintendencia del Mercado de Valores de la República de Panamá*) (the “**SMV**”). Accordingly, (i) the Offer Shares cannot be publicly offered or sold in Panama, except in transactions exempted from registration under the Panamanian Securities Laws, (ii) the SMV has not reviewed the information contained in this International Offering Circular, (iii) the Offer Shares and the International Offering are not subject to the supervision of the SMV, and (iv) the Offer Shares do not benefit from the tax incentives provided by the Panamanian Securities Laws.

**NOTICE TO PROSPECTIVE INVESTORS IN THE PEOPLE’S REPUBLIC OF CHINA  
(EXCLUDING HONG KONG, MACAU AND TAIWAN)**

The Offer Shares may not be offered, sold or delivered, or offered, sold or delivered to any person for reoffering, resale or redelivery, directly or indirectly, in the People’s Republic of China (“**PRC**”) in contravention of any applicable laws. It is further acknowledged that (a) no fee will be charged to any PRC investors for distribution of this International Offering Circular other than a 1% standard brokerage fee upon purchase of the Offer Shares in the equity market outside of the PRC; (b) this International Offering Circular contains relevant disclaimers; (c) no public media or other means of public distribution or announcement will be used within the PRC in connection with the delivery or distribution of this International Offering Circular; and (d) this International Offering Circular will not be presented as, or otherwise constitute provision of any consultancy or advisory service of securities investment, or constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC. Saudi Aramco does not represent that this International Offering Circular may be lawfully distributed, or that any securities may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating the International Offering in the PRC. In particular, no action has been taken by Saudi Aramco, which would permit a public offering of any securities or distribution of this International Offering Circular in the PRC. Accordingly, the Offer Shares are not being offered or sold within the PRC by means of this International Offering Circular or any other document. For this purpose, the term “**PRC**” excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan.

**NOTICE TO PROSPECTIVE INVESTORS IN PERU**

Under the Peruvian Securities Market Law (“**SML**”), shares of a non-Peruvian company are required to be registered with the *Registro Público del Mercado de Valores* (Securities Market Public Registry, or the “**RPMV**”), which is a registry held by the *Superintendencia del Mercado de Valores* (the Superintendency of the Securities Market, or the “**SMV**”) where the shares are subject of a “public offering” in Peruvian territory. Under relevant Peruvian law and regulation, a public offering will be deemed to occur where shares are offered to the Peruvian public in general, or otherwise targets a specific segment of the public, considered as: (i) 100 or more individuals or entities; or (ii) a group of individuals or entities, whether defined or not, that requires protection due to difficulty in making a free and informed decision regarding a particular offer, given their limited access to relevant information and/or their ability to process such information, when their number is consider relevant for the public interests. Peruvian legislation also provides that, among other situations, an offering made exclusively to individuals or entities that qualify as “Institutional Investors” does not constitute a public offering of securities.

The Offer Shares that are the subject of the present Offering have not been and will not be registered with the RPMV. The Offer Shares may only be purchased by investors located in Peru, if they qualify as “Institutional Investors” under Peruvian Law and regulation, or in circumstances that do not constitute a public offering of securities made in Peruvian territory.

The International Offering is not subject to the Peruvian legislation on public offering of securities and therefore the disclosure requirements provided in said legislation do not apply to the same.

The SMV has not reviewed the information provided to the investor.

**NOTICE TO PROSPECTIVE INVESTORS IN THE PHILIPPINES**

The Offer Shares being offered or sold herein have not been registered with the Securities and Exchange Commission of the Philippines under the Securities Regulation Code. Any future offer or sale thereof is subject to registration requirements under the Securities Regulation Code unless such offer or sale qualifies as an exempt transaction.

Under the Securities Regulation Code and its implementing rules, any offer or sale of the Offer Shares within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Offer Shares qualify as exempt securities or sold pursuant to an exempt transaction under the Securities Regulation Code. The offer or sale of the Offer Shares in the Philippines to (a) persons who are “qualified buyers” pursuant to Section 10.0 (I) of the Securities Regulation Code or (b) not more than nineteen (19) persons who are not “qualified buyers” during any 12-month period pursuant to Section 10.1(k) of the Securities Regulation Code each exempt from registration.

## NOTICE TO PROSPECTIVE INVESTORS IN THE RUSSIAN FEDERATION

Neither the Offer Shares nor this International Offering Circular have been, or are intended to be, registered with the Central Bank of Russia or any other state bodies that may from time to time be responsible for such registration. The Offer Shares will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russia Federation unless and to the extent permitted under Russian law.

## NOTICE TO PROSPECTIVE INVESTORS IN SINGAPORE

This International Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this International Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Offer Shares may not be circulated or distributed, nor may any Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the “SFA”)) pursuant to section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to section 275(1) of the SFA, or any person pursuant to section 275(1A), and in accordance with the conditions specified in section 275, of the SFA and (in the case of an accredited investor) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Offer Shares are subscribed or purchased under section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (as defined in section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under section 275 of the SFA except:

- (a) to an institutional investor or to a relevant person defined in section 275(2) of the SFA, or to any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA;
- (d) where no consideration is or will be given for the transfer;
- (e) where the transfer is by operation of law;
- (f) as specified in section 276(7) of the SFA; or
- (g) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Solely for purposes of the notification requirements under Section 309B(1)(c) of the SFA, the Offer Shares are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018)) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## NOTICE TO PROSPECTIVE INVESTORS IN SOUTH AFRICA

In South Africa, the International Offering will only be made by way of separate private placements of the Offer Shares to selected persons, and will be capable of acceptance by (i) persons falling within one or more of the categories of persons set out in section 96(1)(a) and/or (ii) selected persons, acting as principal, acquiring Offer Shares for a contemplated total acquisition cost of R1 million or more, as envisaged in section 96(1)(b), of the South African Companies Act, 2008 (“**South African Companies Act**”) and the South African Companies Regulations of 2011, and to whom the Offer will specifically be addressed (“**South African Qualifying Investors**”) and this International Offering Circular is only being made available to such South African Qualifying Investors. The International Offering and this International Offering Circular do not constitute an offer for the sale of or subscription for, or the solicitation or advertisement of an offer to buy and to subscribe for,

any Offer Shares or further Offer Shares to the public as defined in the South African Companies Act and will not be made or distributed, as applicable, to any person in South Africa in any manner which could be construed as an offer to the public in terms of the South African Companies Act. Should any person who is not a South African Qualifying Investor receive this International Offering Circular, they should not and will not be entitled to acquire any Offer Shares or otherwise act thereon. This International Offering Circular does not, nor is it intended to, constitute a registered prospectus or an advertisement relating to any offer, as contemplated under the South African Companies Act. Accordingly, this International Offering Circular does not comply with the substance and form requirements for prospectuses or advertisements set out in the South African Companies Act and the South African Companies Regulations of 2011 and has not been filed with, approved by, and/or registered with, the South African Companies and Intellectual Property Commission, or any other South African authority.

No South African residents may subscribe for, or purchase, any of the Offer Shares, or beneficially own or hold any of the Offer Shares, unless such subscription, purchase, or beneficial holding or ownership is permitted under the South African exchange control regulations or the rulings promulgated thereunder or specific approval has been obtained by the investor from the Financial Surveillance Department of the South African Reserve Bank, and by participating in the International Offering investors are deemed to have warranted that they have the requisite exchange control approvals in place for participating in the International Offering and acquiring Offer Shares.

The information contained in this International Offering Circular constitutes factual information as contemplated in section 1(3)(a) of the Financial Advisory and Intermediary Services Act, 2002 (“**FAIS Act**”) and should not be construed as an express or implied recommendation, guidance or proposal that any particular transaction in respect of the Offer Shares is appropriate to the particular investment objectives, financial situations or needs of a prospective investor, and nothing in this International Offering Circular should be construed as constituting the canvassing for, or marketing or advertising of, financial services in South Africa. Saudi Aramco is not a financial services provider licensed as such under the FAIS Act.

#### **NOTICE TO PROSPECTIVE INVESTORS IN SOUTH KOREA**

A registration statement for the offering and sale of the Offer Shares has not been filed under the Financial Investment Services and Capital Markets Act. Each purchaser of the Offer Shares hereunder will be deemed to have represented and agreed that the Offer Shares may not be offered, sold or delivered, directly or indirectly, in South Korea or to, or for the account or benefit of, any resident of South Korea (as such term is defined under the Foreign Exchange Transaction Law and Regulation of Korea and its Enforcement Decree), except as otherwise permitted under applicable South Korean laws and regulations.

#### **NOTICE TO PROSPECTIVE INVESTORS IN SWITZERLAND**

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. This International Offering Circular has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27(ff) of the Swiss Exchange Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this International Offering Circular nor any other offering or marketing material relating to the Offer Shares or the International Offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this International Offering Circular nor any other offering or marketing material relating to the International Offering, Saudi Aramco or the Offer Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this International Offering Circular will not be filed with, and the offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of Offer Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes. The investor protection afforded to acquirers of interests in collective investment schemes under the Swiss Federal Act on Collective Investment Schemes does not extend to acquirers of the Offer Shares.

#### **NOTICE TO PROSPECTIVE INVESTORS IN TAIWAN**

The Offer Shares have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be issued, offered or sold in Taiwan through a public offering or in any manner which would constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that would otherwise

require registration or filing with or the approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority or agency of Taiwan. No person or entity in Taiwan has been authorised to offer or sell the Offer Shares in Taiwan.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THAILAND**

The offer of Offer Shares has not been approved by or registered with the Securities and Exchange Commission or any other regulatory authority of the Kingdom of Thailand. Accordingly, no Offer Shares may be offered or sold in Thailand nor may Offer Shares be made the subject of an invitation for subscription or purchase in Thailand, except under circumstances which do not constitute an offer for sale of the Offer Shares to the public for the purposes of the Securities and Exchange Act of 1992 of Thailand (as amended), or does not require approval, or through applicable exemptions from approval and filing requirements of the Office of the Securities and Exchange Commission of Thailand under all applicable laws, regulations and guidelines promulgated by the Thai government and regulatory authorities in effect at the relevant time. This International Offering Circular and any other document or material in connection with the offer or sale of the Offer Shares have not been circulated or distributed, and will not be circulated or distributed, to investors in Thailand for the purpose of offering and sale of the Offer Shares or an invitation for subscription or purchase of the Offer Shares in Thailand, except under circumstances as described.

#### **NOTICE TO PROSPECTIVE INVESTORS IN UKRAINE**

Under Ukrainian law, the Offer Shares are securities of a foreign issuer. The Offer Shares will not be issued, publicly offered, placed or admitted to circulation within the territory of Ukraine. This International Offering Circular has not been, and is not intended to be approved by, the National Commission for Securities and Stock Market of Ukraine and has not been circulated, distributed or otherwise made public, and will not be circulated, distributed or otherwise made public in Ukraine. The Issue of the Offer Shares will not be registered by the National Commission for Securities and Stock Market of Ukraine. The Offer Shares are not intended to be admitted to circulation within the territory of Ukraine by the National Commission for Securities and Stock Market of Ukraine. The information in this document is not an offer, public offer, or an invitation to solicit offers, to sell, purchase, exchange, otherwise alienate or acquire the Offer Shares or otherwise transfer rights to and rights under the Offer Shares within the territory of Ukraine.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTRE)**

The International Offering has not been approved or licensed by the UAE Central Bank, the UAE Ministry of Economy, the UAE Securities and Commodities Authority (the “SCA”) or any other relevant licensing authorities or governmental agencies in the UAE, and accordingly does not constitute a public offer of securities in the UAE in accordance with Federal Law No. 2 of 2015 on Commercial Companies (as amended), the SCA Board of Directors Decision No. (3/R.M) of 2017 Concerning the Organization of Promotion and Introduction (the “**Promotion and Introduction Regulations**”) or otherwise. Accordingly, the Offer Shares may not be offered to the public in the UAE.

This International Offering Circular is strictly private and confidential and is being issued to a limited number of institutional and individual investors:

- (a) who fall within with the exceptions set out in the Promotion and Introduction Regulations (Qualified Investors excluding natural persons); or
- (b) upon their request and confirmation that they understand that the Offer Shares have not been approved or licensed by or registered with the UAE Central Bank, the UAE Ministry of Economy, the SCA, or any other relevant licensing authorities or governmental agencies in the UAE,

and must not be provided to any person other than the original recipient, is not for general circulation in the UAE and may not be reproduced or used for any other purpose.

## ACCESS PRODUCTS

Subject to compliance with all applicable laws, rules and regulations in the Kingdom, financial institutions, including affiliates of the Joint Bookrunners, may issue or otherwise deal in offshore derivative instruments (which term shall refer to any instrument, by whatever name called, which is issued or offered outside of the Kingdom by a financial institution against securities held by it that are listed or proposed to be listed on the Exchange, as its underlying, and all such offshore derivative instruments are referred to herein as “**Access Products**”), for which they may receive compensation from the purchasers of such instruments. Access Products are subject to applicable law and regulations and the terms and conditions of the relevant underlying documentation. Access Products have not been and are not being offered or sold pursuant to this International Offering Circular. This International Offering Circular does not contain any information concerning Access Products or the issuer(s) or offeror(s) of any Access Products, including any information regarding any risk factors relating thereto.

Any Access Products that may be issued are not instruments of Saudi Aramco and do not constitute any obligation of, claims on or interests in Saudi Aramco. Saudi Aramco has not participated in any offer of any Access Products, or in the structuring or establishment of the terms of any Access Products, or in the preparation of any disclosure or underlying documentation related to any Access Products. Any Access Products that may be offered are issued or offered by, and are the sole obligations of, third parties that are unrelated to Saudi Aramco. Saudi Aramco and the Joint Bookrunners do not make any recommendation as to any investment in Access Products and do not accept any responsibility whatsoever in connection with any Access Products. Any Access Products that may be issued or offered are not instruments of the Joint Bookrunners and do not constitute any obligations of or claims on or interests in the Joint Bookrunners. Affiliates of the Joint Bookrunners that are financial institutions may purchase, to the extent permissible under law and regulation, the Offer Shares in the International Offering, and may issue or offer Access Products in respect thereof. If a significant portion of the Offer Shares is purchased with the intention to be held or referenced as underlying securities for Access Products, trading liquidity in the Shares may be limited and pricing may be impacted. In addition, trading in the Access Products themselves may impact liquidity and pricing in the Shares, and the Access Products themselves may be illiquid and/or subject to restrictions on their resale.

To the extent you are interested in purchasing or entering into any Access Products, you have the responsibility to obtain adequate disclosures as to the issuer(s) or offeror(s) of such Access Products and the terms and conditions of any such Access Products from the issuer(s) or offeror(s) of such Access Products. Neither Saudi Aramco nor the Joint Bookrunners are aware whether the CMA or any other regulatory authority has reviewed or approved any Access Products or any disclosure related thereto. You are urged to consult your own financial, legal, accounting and tax advisors regarding any contemplated investment in Access Products, including whether Access Products are issued in compliance with applicable laws and regulations, and whether such investment is consistent with your financial needs, objectives and conditions and complies with all restrictions applicable to you, and whether such investment is a fit, proper and suitable investment for you.

## **TRANSFER RESTRICTIONS**

### **United States**

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any security regulatory authority of any state of the United States and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

Each purchaser of the Offer Shares outside the United States will be deemed to have represented, agreed and acknowledged that it has received a copy of this International Offering Circular and such other information as it deems necessary to make an investment decision and that:

- (a) the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;
- (b) the purchaser acknowledges that the Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state, territory or other jurisdiction of the United States, and, subject to certain exceptions, may not be offered or sold within the United States;
- (c) the purchaser and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares, was located outside the United States at the time the buy order for such Offer Shares was originated and continues to be located outside the United States and has not purchased such Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of such Offer Shares or any economic interest therein to any person in the United States;
- (d) the purchaser is not an affiliate of Saudi Aramco or a person acting on behalf of an affiliate;
- (e) the Offer Shares have not been offered to the purchaser by means of any “directed selling efforts” as defined in Regulation S under the U.S. Securities Act;
- (f) if the purchaser is acquiring any Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that the purchaser has sole investment discretion with respect to each such account and that the purchaser has full power to make, and does make, the foregoing acknowledgements, representations and agreements on behalf of each such account;
- (g) the purchaser understands that any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions may not be recognised by Saudi Aramco or the Selling Shareholder; and
- (h) the purchaser acknowledges that Saudi Aramco, the Selling Shareholder, the Joint Bookrunners and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

### **EEA**

Each person in a Member State who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated hereby will be deemed to have represented, warranted and agreed to and with each of Saudi Aramco, the Selling Shareholder and the Joint Bookrunners that:

- (a) it is a Qualified Investor; and
- (b) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 5(1) of the Prospectus Regulation, (i) the Offer Shares acquired by it in the International Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than Qualified Investors, or in other circumstances falling within Article 5(1) of the Prospectus Regulation and the prior consent of the Joint Bookrunners has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Member State other than Qualified Investors, the offer of those Offer Shares to it is not treated under the Prospectus Regulation as having been made to such persons.

For the purposes of this provision, the expression an “offer” in relation to any of the Offer Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the International Offering and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares.

## **LEGAL MATTERS**

In connection with the International Offering, White & Case LLP, will pass upon certain legal matters for Saudi Aramco and Latham & Watkins LLP, will pass upon certain legal matters for the Joint Global Coordinators and Joint Bookrunners.



**APPENDIX A**  
**SUPPLEMENTARY DOMESTIC OFFERING PROSPECTUS**



Saudi Arabian Oil Company (Saudi Aramco)  
Supplementary Prospectus

This Supplementary Prospectus (“Supplementary Prospectus”) is a supplement to, and should be read in conjunction with, the Red Herring Prospectus dated 12/3/1441H (corresponding to 9 November 2019G) issued by Saudi Arabian Oil Company (Saudi Aramco) (“Saudi Aramco”) in connection with its initial public offering (the “Red Herring Prospectus”). Terms and definitions used but not defined in this Supplementary Prospectus shall have the meaning given to them in the Red Herring Prospectus.

Joint Financial Advisors



Joint Global Coordinators



Institutional Joint Bookrunners



Foreign Institutional Joint Bookrunners (residing outside the Kingdom)



Lead Manager



Stabilising Manager



Receiving Banks



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**Legal Advisor to the Company**

مكتب مقرن بن محمد الشعلان للمحاماة  
The Law Office of Megren M. Al-Shaalan

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**Legal Advisor to the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners and Underwriters**

مكتب سلمان م.السدائري للمحاماة  
THE LAW OFFICE OF SALMAN M.AL-SUDAIRI

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**Financial Due Diligence Advisor**



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**Industry Consultant**



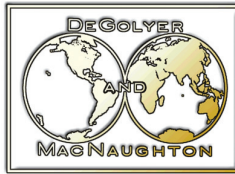
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**Independent Auditor for the Company**



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**Petroleum Consultant**



## Important Notice

This Supplementary Prospectus includes information submitted as part of the application for registration and offer of securities in compliance with the Rules on the Offer of Securities and Continuing Obligations of the Saudi Arabian Capital Market Authority (the “CMA”) and the application for listing of securities in compliance with Listing Rules. The directors of the Company (the “Directors”), whose names appear on page (xi) of the Red Herring Prospectus, collectively and individually, accept full responsibility for the accuracy of the information contained in this Supplementary Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and Saudi Stock Exchange (“Exchange” or “Tadawul”) do not take any responsibility for the contents of this Supplementary Prospectus, do not make any representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Supplementary Prospectus.

For purposes of the offering of Offer Shares in the Kingdom, (i) this Supplementary Prospectus is an unofficial English translation of the official Arabic Supplementary Prospectus and is provided for information purposes only and (ii) the Arabic Supplementary Prospectus published on the CMA’s website ([www.cma.org.sa](http://www.cma.org.sa)) remains the only official, legally binding version and shall prevail in the event of any conflict between the two versions.

## 1. The Company

Saudi Aramco was originally established in the Kingdom of Saudi Arabia (the “**Kingdom**”) by virtue of Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) as a company wholly owned by the Government of the Kingdom (the “**Government**”) with a fully paid share capital of sixty billion Saudi Riyals (SAR 60,000,000,000). It became a Saudi joint stock company on 14/4/1439H (corresponding to 1 January 2018G) by virtue of the Bylaws, which were approved by Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G). Saudi Aramco is registered in the city of Dhahran under commercial registration No. 2052101150 dated 11/07/1439H (corresponding to 28 March 2018G) with its headquarters based in Dhahran.

## 2. Directors Declarations

The Directors hereby declare and accept full responsibility for the following:

- no significant changes in material matters or additional significant matters have arisen other than what has been disclosed in this Supplementary Prospectus; and
- this Supplementary Prospectus was presented to the CMA and issued on 20/3/1441H (corresponding to 17 November 2019G) and supplements the Red Herring Prospectus, which was published on the CMA’s website on 12/3/1441H (corresponding to 9 November 2019G).

## 3. Notices

- The Company, the Selling Shareholder and the Joint Financial Advisors draw the attention of the recipients of this Supplementary Prospectus to the importance of considering and abiding by all of the terms and restrictions relating to the Offering set forth in the Red Herring Prospectus.
- Prior to making an investment decision, each recipient of this Supplementary Prospectus is responsible for obtaining independent professional advice (in the case of investors in the Kingdom, from a CMA licenced financial advisor) in relation to the Offering and must rely on its own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient’s individual objectives, financial situation and needs, including the merits and risks involved in investing in the Offer Shares.
- This Supplementary Prospectus may not be distributed and the Offer Shares may not be sold to any person other than the Subscribers and/or Individual Investors described in the Red Herring Prospectus.

## 4. Reasons for the issuance of this Supplementary Prospectus

In accordance with Article 32 of the OSCO Rules, an issuer must submit a supplementary prospectus to the CMA if at any time after the prospectus has been published, and prior to the completion of the Offering, an issuer becomes aware that:

- (1) there has been a significant change in material matters contained in the prospectus; or
- (2) significant matters have become known which would have been required to be included in the prospectus.

In consultation with the Selling Shareholder, the Company has decided to limit the Offering to investors within the Kingdom and GCC countries, as well as subscription order requests received by the Joint Bookrunners of Institutional Subscribers (in accordance with the Instructions for Book-Building Process and Allocation Method in Initial Public Offers (IPOs)). Accordingly, the Company has made certain amendments to modify the Red Herring Prospectus, summarised below:

### Modifications

- Deletion of the International Settlement Agent and the legal advisors to the International Offering under the heading “Corporate Directory” in the Red Herring Prospectus.
- Deletion of references and legends in connection with the U.S. Securities Act or the securities laws of any country other than the Kingdom or the offering of Shares pursuant to Rule 144A and Regulation S under the U.S. Securities Act.
- Deletion of any reference to the distribution of the Prospectus outside the Kingdom to foreign investors.
- Deletion of any reference to differences between IFRS and U.S. generally accepted accounting principles.

The Company has also made certain amendments to the Red Herring Prospectus regarding participation of the Directors in the Offering, summarised as follows:

- Deletion of the possibility of the Directors participating in the Offering. However, Senior Executives who are not Directors have the right to participate in the Offering.
- Deletion of footnote (1) in Table 2 (*The Company’s Board of Directors*) on page xi under the heading “Corporate Directory” in the Red Herring Prospectus.

- Deletion of footnote (1) in Table 27 (*The Company's Board of Directors*) on page 98 of Section 6 (*Organisational Structure and Corporate Governance*) of the Red Herring Prospectus.
- Amendment of footnote (2) in the following sections to reflect the foregoing:
  - Table 3 (*Selling Shareholder and the ownership interests in the Company pre- and post-Offering*) on page xxv of the Offering Summary Section;
  - Table 26 (*Selling Shareholder and the ownership interests in the Company pre- and post-Offering*) on page 96 of Section 6 (*Organisational Structure and Corporate Governance*); and
  - Table 81 (*Direct Ownership Structure of Saudi Aramco Pre- and Post-Offering*) on page 189 of Section 13 (*Legal Information*).

As amended, footnote (2) in Table 3, Table 26 and Table 81 now reads as follows:

“Senior Executives may purchase Shares from the Government concurrently with the consummation of the Offering. Such Shares will not be counted towards the public float.”

**APPENDIX B**  
**PRELIMINARY DOMESTIC OFFERING PROSPECTUS**

This Red Herring prospectus will be made available to Institutional Subscribers participating in the Book-Building process and Individual Investors participating in the Retail Offering, and does not include the number of Offer Shares to be sold in the Offering or the Final Offer Price. The final version of this Prospectus, which will include the Final Offer Price, the total number of Offer Shares to be sold and the percentage of the outstanding Shares, shall be announced and published after the completion of the Book-Building Period and the determination of the Final Offer Price.

# Saudi Arabian Oil Company (Saudi Aramco) Prospectus

A joint stock company by virtue of Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G), with commercial registration No. 2052101150 dated 11/7/1439H (corresponding to 28 March 2018G).

Offering of ordinary shares of Saudi Aramco, representing % of its share capital, at a Final Offer Price of SAR per share.

Offering Period: 18 days starting on 20/3/1441H (corresponding to 17 November 2019G) and ending on 7/4/1441H (corresponding to 4 December 2019G).

# أرامكو السعودية

## saudi aramco



Saudi Arabian Oil Company (Saudi Aramco) ("Saudi Aramco") was originally established in the Kingdom of Saudi Arabia (the "Kingdom") by virtue of Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) as a company wholly owned by the Government of the Kingdom (the "Government") with a fully paid share capital of sixty billion Saudi Riyals (SAR 60,000,000,000). It became a Saudi joint stock company on 14/4/1439H (corresponding to 1 January 2018G) by virtue of the Bylaws, which were approved by Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G). Saudi Aramco is registered in the city of Dhahran under commercial registration No. 2052101150 dated 11/7/1439H (corresponding to 28 March 2018G). The current share capital of Saudi Aramco is sixty billion Saudi Riyals (SAR 60,000,000,000), consisting of two hundred billion (200,000,000,000) ordinary shares with no par value (the "Shares"), and is wholly owned by the Government. For more information, see Section 4.4 (*Corporate History and Evolution*).

**Offering Period:** The offering period for the Institutional Subscribers (as defined below) begins on 20/3/1441H (corresponding to 17 November 2019G) and closes at the end of 7/4/1441H (corresponding to 4 December 2019G) (the "**Book-Building Period**") and the offering period for the Individual Investors (as defined below) begins on 20/3/1441H (corresponding to 17 November 2019G) and closes at the end of 1/4/1441H (corresponding to 28 November 2019G) (the "**Retail Offering Period**").

This offering (the "**Offering**") is the initial public offering of the Shares and consists of a sale by the Government (the "**Selling Shareholder**") of a portion of the Shares (collectively, the "**Offer Shares**") and each an "**Offer Share**". The Offer Shares will be offered at a price range of SAR 30 to SAR 32 per Share (the "**Offer Price Range**"). The Final Offer Price, number of Offer Shares to be sold and percentage that the Offer Shares to be sold represent of the outstanding Shares will be determined at the end of the Book-Building Period (the description of "**Final Offer Price**" on page xxvi of this Prospectus sets out a description of how the Final Offer Price will be calculated). The Offering shall be restricted to the following two groups of investors:

**Tranche (A) (Institutional Subscribers):** institutional subscribers comprise the institutional investors eligible to participate in the book building process as specified under the Book-Building Instructions (as defined herein) and other terms and conditions set forth in this Prospectus (collectively, the "**Institutional Subscribers**") and each an "**Institutional Subscriber**" (for further details, see Sections 1 (*Definitions and Abbreviations*) and 18 (*Subscription Terms and Conditions*)). The Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators (each as defined herein), shall determine the number and percentage of Offer Shares which will be allocated to the Institutional Subscribers.

**Tranche (B) (Individual Investors):** individual investors comprise Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities (collectively, the "**Individual Investors**") and each an "**Individual Investor**". Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. The Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, shall determine the number and percentage of Offer Shares which will be allocated to the Individual Investors. The targeted percentage of Offer Shares allocable to Individual Investors will be up to 0.5% of the Shares.

Each Individual Investor who subscribes to the Offer Shares must submit a Retail Subscription Form and must subscribe for Offer Shares in multiples of ten (with a minimum subscription of ten Offer Shares) at the highest price set forth in the Offer Price Range (the "**Retail Subscription Form**"). Each Individual Investor will be required to specify in the Retail Subscription Form the number of Offer Shares to which such Individual Investor is willing to subscribe at the Retail Subscription Price and whether, if the Final Offer Price is lower than the Retail Subscription Price, such person elects (1) to have any surplus subscription amount resulting from the difference between the Retail Subscription Price and the Final Offer Price refunded in cash by crediting the account of such Individual Investor or (2) to be considered for an allotment of additional Offer Shares. To the extent an Individual Investor elects to be considered for an allotment of additional Offer Shares, but such allotment is not made by the Company and the Selling Shareholder in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, the remaining surplus subscription amount will be refunded in cash by crediting the account of such Individual Investor. Individual Investors must specify their choice in the Retail Subscription Form, including, in the case of fractional Shares, an amount with respect to such fractional Shares (i.e. if there are no additional Shares allocated, the remaining surplus subscription amount will be refunded by crediting the account of such Individual Investors). For further details, see "**Key Dates and Subscription Procedures**" on page xxxii and Section 18 (*Subscription Terms and Conditions*).

Each Eligible Retail Bonus Investor (as defined herein) who continuously and uninterruptedly holds Offer Shares for 180 days from (and including) the first date that the Shares begin trading on the Saudi Stock Exchange (the "**Exchange**" or "**Tadawul**") (the "**Bonus Holding Period**") will be entitled to receive one Share (each a "**Bonus Share**") for every ten allocated Offer Shares so held, up to a maximum of 100 Bonus Shares. The Bonus Shares will be allocated from Shares owned by the Selling Shareholder. No person will have any rights with respect to the Bonus Shares until the Bonus Shares have been deposited into the account of such person. For more information, see Section 18.1.6 (*IPO Retail Incentive – Bonus Shares*).

In connection with the Offering, the Stabilising Manager (as defined herein) may effect transactions to stabilise the market price of the Shares to the extent permitted by the Stabilisation Instructions (as defined herein). Such transactions may be effected on the

Exchange and may be undertaken at any time during the period commencing on the date of the commencement of trading of the Shares on the Exchange and ending no later than 30 calendar days thereafter (the "**Stabilising Period**"). However, the Stabilising Manager is under no obligation to undertake any stabilising transactions and such stabilisation, if commenced, may be discontinued at any time without prior notice. The Stabilising Manager will disclose any allocation of over-allotments and price stabilisation processes undertaken in connection with the Offering to the extent required by the Stabilisation Instructions.

In order to allow the Stabilising Manager to cover short positions resulting from any over-allotments, the Selling Shareholder will grant the Stabilising Manager an option (the "**Over-allotment Option**") pursuant to which the Stabilising Manager may purchase an additional number of Shares equal to up to 15% of the total number of Shares sold in the Offering (the "**Over-allotment Shares**") at the Final Offer Price. The Over-allotment Option will be exercisable in whole or in part upon notice by the Stabilising Manager at any time during the Stabilising Period. The Over-allotment Shares will be the same class and have all the same rights as the Offer Shares, including with respect to all dividends and other distributions, and will be traded on the Exchange on the same terms and conditions as the Offer Shares.

Saudi Aramco has one class of ordinary Shares. Each Share entitles its holder to one vote, and each shareholder has the right to attend and vote at the General Assemblies (as defined herein). In addition, each holder of Shares will be entitled to receive any dividends declared by Saudi Aramco from (and including) the date of announcement of the final allocation of Offer Shares to Institutional Subscribers and Individual Investors referred to in Table 4 (*Expected Offering Timeline*). For more information, see Section 8 (*Dividend Distribution Policy and Dividends Framework*).

The Government is the only Substantial Shareholder of Saudi Aramco because it owns all the Shares as at the date of this Prospectus. For further information, see Table 3 (*Selling Shareholder and the ownership interests in the Company pre- and post-Offering*).

Upon completion of the Offering, the Selling Shareholder will retain a controlling interest in Saudi Aramco. The Selling Shareholder will receive all of the proceeds of the Offering and will reimburse Saudi Aramco for all fees, costs and expenses it incurs in connection with the Offering. For further details, see Section 9 (*Use of Proceeds*).

Pursuant to the OSCO Rules (as defined herein), the Substantial Shareholder (who is also the Selling Shareholder) will be prohibited from disposing of its Shares for a six month lock-up period starting from the commencement of trading of the Shares on the Exchange (the "**Statutory Lock-up Period**"), subject to limited exceptions described in Section 17 (*Waivers*). In addition, the Listing Rules will prohibit Saudi Aramco from listing additional Shares for a period of six months after the commencement of trading of the Shares on the Exchange. Furthermore, the Selling Shareholder will be restricted from disposing of any Shares, and the Company will be restricted from issuing additional Shares, by the terms of the Underwriting Agreement and the Coordination Agreement (each as defined herein) for a contractual period of twelve months after commencement of trading of the Shares on the Exchange (the "**Contractual Lock-up Period**"), in each case subject to certain exceptions. The transfer of Bonus Shares by the Selling Shareholder to Eligible Retail Bonus Investors as described in this Prospectus will not be subject to the Contractual Lock-up Period, after the expiry of the Statutory Lock-up Period. For further details, see Sections 15.4 (*Contractual Lock-up Period*) and 18.7 (*Lock-up Period*).

Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. Saudi Aramco has submitted an application for registration and offer of the Shares to the Capital Market Authority of the Kingdom Saudi Arabia (the "**CMA**"), and an application for listing of the Shares on the Exchange, together with all required documents. All relevant regulatory and corporate approvals required to conduct the Offering have been granted, including approvals pertaining to the publication of this Prospectus, and all supporting documents have been submitted to the CMA. It is expected that trading in the Shares will commence on the Exchange after all relevant legal requirements and procedures have been completed (for further details, see "**Key Dates and Subscription Procedures**" on page xxxii). Saudi Arabian nationals, non-Saudi Arabian nationals resident in the Kingdom who own an investment account with an Authorised Person (as defined herein), and companies, banks, and investment funds established in the Kingdom or in countries of the GCC, as well as GCC nationals, will be permitted to trade in the Shares after their trading commences on the Exchange. Moreover, Qualified Foreign Investors will be permitted to trade the Shares in accordance with the QFI Rules and Foreign Strategic Investors will be permitted to trade the Shares in accordance with the FSI Instructions (all as defined herein). Furthermore, non-Saudi nationals who are not resident in the Kingdom and institutions incorporated outside the Kingdom (other than Qualified Foreign Investors and Foreign Strategic Investors) (collectively, the "**Foreign Investors**") and each a "**Foreign Investor**") will be permitted to acquire an economic interest in the Shares by entering into a swap agreement with an Authorised Person. Under such swap agreements, the Authorised Person will be the registered legal owner of such Shares.

**Investment in the Offer Shares involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with an investment in the Offer Shares, see "Important Notice" on page i and Section 2 (Risk Factors).**

## Joint Financial Advisors



This Prospectus includes information provided as part of the application for registration and offer of securities in compliance with the OSCO Rules issued by the CMA and the application for listing of securities in compliance with the Listing Rules (as defined herein). The Directors (as defined herein), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representations as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

For purposes of the Offering in the Kingdom, (i) this Prospectus is an unofficial English translation of the official Arabic Prospectus and is provided for information purposes only and (ii) the Arabic Prospectus published on the CMA's website (www.cma.org.sa) remains the only official, legally binding version and shall prevail in the event of any conflict between the two versions.

This Prospectus is dated 12/3/1441H (corresponding to 9 November 2019G).





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Joint Global Coordinators



Institutional Joint Bookrunners



Foreign Institutional Joint Bookrunners (residing outside the Kingdom)



Lead Manager



Stabilising Manager



Receiving Banks



## IMPORTANT NOTICE

This Prospectus contains detailed information relating to the Company and the Offer Shares. A decision to invest in the Offer Shares should be based solely on the information contained in this Prospectus, copies of which are available from the Company, the Joint Bookrunners and the Receiving Entities or by visiting the websites of the Company ([www.saudiaramco.com](http://www.saudiaramco.com)), the CMA ([www.cma.org.sa](http://www.cma.org.sa)) or or the Joint Financial Advisers set forth next to their respective names on pages xiii to xvi.

The Company has appointed the following entities for the roles set forth below with respect to the Offering.

<b>Joint Financial Advisers</b>	<p>Citigroup Saudi Arabia          Credit Suisse Saudi Arabia          Goldman Sachs Saudi Arabia          HSBC Saudi Arabia          J.P. Morgan Saudi Arabia Company          Merrill Lynch Kingdom of Saudi Arabia          Morgan Stanley Saudi Arabia          NCB Capital Company          Samba Capital &amp; Investment Management Company</p>
<b>Joint Global Coordinators</b>	<p>Citigroup Global Markets Limited          Credit Suisse Securities (Europe) Limited          Goldman Sachs International          HSBC Saudi Arabia          J.P. Morgan Securities plc          Merrill Lynch Kingdom of Saudi Arabia          Morgan Stanley &amp; Co. International plc          NCB Capital Company          Samba Capital &amp; Investment Management Company</p>
<b>Institutional Joint Bookrunners</b>	<p>HSBC Saudi Arabia          Merrill Lynch Kingdom of Saudi Arabia          NCB Capital Company          Samba Capital &amp; Investment Management Company          Al Rajhi Capital          EFG Hermes KSA          GIB Capital          Riyadh Capital          Saudi Fransi Capital</p>
<b>Foreign Institutional Joint Bookrunners (residing outside the Kingdom)</b>	<p>Citigroup Global Markets Limited          Credit Suisse Securities (Europe) Limited          Goldman Sachs International          J.P. Morgan Securities plc          Morgan Stanley &amp; Co. International plc          Banco Santander, S.A.          BNP PARIBAS          BOCI Asia Limited          Crédit Agricole Corporate and Investment Bank          Deutsche Bank AG, London Branch          First Abu Dhabi Bank PJSC          Mizuho International plc          RBC Europe Limited          SMBC Nikko Capital Markets Limited          Société Générale          UBS AG, London Branch</p>

<b>Underwriters</b>	Citigroup Saudi Arabia Credit Suisse Securities (Europe) Limited Goldman Sachs International HSBC Saudi Arabia J.P. Morgan Securities plc Merrill Lynch Kingdom of Saudi Arabia Morgan Stanley & Co. International plc NCB Capital Company Samba Capital & Investment Management Company Al Rajhi Capital Banco Santander, S.A. BNP PARIBAS BOCI Asia Limited Crédit Agricole Corporate and Investment Bank Deutsche Securities Saudi Arabia EFG Hermes KSA First Abu Dhabi Bank PJSC GIB Capital Mizuho International plc RBC Europe Limited Riyadh Capital Saudi Fransi Capital SMBC Nikko Capital Markets Limited Société Générale UBS AG, London Branch
<b>Lead Manager</b>	Samba Capital & Investment Management Company
<b>Stabilising Manager</b>	Goldman Sachs Saudi Arabia

This Prospectus includes information that has been presented in compliance with the requirements for the registration and Listing of the Shares on the Exchange in accordance with the OSCO Rules and the Listing Rules. The directors of the Company, whose names appear on page xi (the “**Directors**”), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

The Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof. However, a substantial portion of the information in this Prospectus relevant to the markets and industry in which the Company operates is derived from external sources. Neither the Company nor any of the Advisors has independently verified such information and, therefore, no representation or assurance is made with respect to the accuracy or completeness thereof. In addition, information contained in this Prospectus with respect to each of the Five Major IOCs is derived from the most recent annual report of such company that is publicly available (the “**Public Filings**”). Neither the Company nor any of the Advisors has independently verified the information included in the Public Filings and, therefore, no representation or assurance is made with respect to the accuracy or completeness of such information.

The information contained herein is believed to be accurate as at the date hereof and is subject to change. In particular, the financial position of the Company and the value of the Shares may be adversely affected by future developments, such as fluctuation in prices of, and supply and demand for, hydrocarbons or other economic, political and other factors over which the Company has no control (for further details, see Section 2 (*Risk Factors*)). Neither the delivery of this Prospectus nor any oral or written information in relation to the Shares is intended to be, or should be construed as, or relied upon in any way as, an affirmation or representation as to future earnings, results or events.

This Prospectus shall not be regarded as a recommendation on the part of the Company, the Directors, the Selling Shareholder, the Receiving Entities or the Advisors to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives of, or the financial situation or particular investment needs of, prospective investors. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice (in the case of investors in the Kingdom, from a CMA licensed financial advisor) in relation

to the Offering and must rely on its own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs, including the merits and risks involved in investing in the Shares. An investment in the Shares may be appropriate for some investors but not others, and prospective investors should not rely on another party's decision whether to invest as a basis for their own examination of the investment opportunity or such party's circumstances.

The Offering is directed at, and may be accepted only by investors in the following two tranches:

**Tranche (A) (Institutional Subscribers):** institutional subscribers comprise the institutional investors eligible to participate in the book-building process as specified under the Book-Building Instructions and the other terms and conditions set forth in this Prospectus (for further details, see Sections 1 (*Definitions and Abbreviations*) and 18 (*Subscription Terms and Conditions*)); and

**Tranche (B) (Individual Investors):** individual investors comprise Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any Offer Shares offered by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. The Shares offered hereby are being offered outside the United States in offshore transactions in compliance with applicable securities laws.

No representation or warranty, express or implied, is made by the Joint Financial Advisors, Joint Global Coordinators and Joint Bookrunners as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, an undertaking or representation in this respect, whether as to the past or the future. None of the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners or any of their respective affiliates, directors or employees assume any responsibility for the contents of this Prospectus or for any other statement made or purported to be made by them, or on their behalf, in connection with the Company, the Offer Shares or the Offering. The Joint Financial Advisors, Joint Global Coordinators and Joint Bookrunners and their respective affiliates, directors or employees accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

The Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners and Lead Manager are acting exclusively for the Company and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

Prospective investors also acknowledge that: (i) they have not relied on the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners, Lead Manager or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied only on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning the Company or the Offer Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners or Lead Manager.

## PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

### Certain Terms

See Section 1 (*Definitions and Abbreviations*) for a glossary of defined terms, a glossary of measurement and technical terms and a glossary of certain other terminology used in this Prospectus. As noted in such section, references in this Prospectus to the “**Company**” are to Saudi Arabian Oil Company (Saudi Aramco), together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### Financial Information

The 2017G Financial Statements and the 2018G Financial Statements have been prepared in accordance with IFRS and have been audited by the Company’s independent auditor, PricewaterhouseCoopers Public Accountants, as stated in its audit reports for the 2017G Financial Statements and the 2018G Financial Statements. The 2019G Six Month Interim Period Financial Statements have been prepared in accordance with IAS 34. The financial information as at and for the year ended 31 December 2016G included in this Prospectus has been derived without material adjustment from the comparative column of the 2017G Financial Statements. The Company’s financial information as at and for the years ended 31 December 2017G and 2018G included in this Prospectus has, unless otherwise indicated, been derived without material adjustment from the 2017G Financial Statements and 2018G Financial Statements, respectively. The financial information as at and for the six months ended 30 June 2018G included in this Prospectus has been derived without material adjustment from the comparative column of the 2019G Six Month Interim Period Financial Statements and the financial information as at and for the six months ended 30 June 2019G included in this Prospectus has been derived without material adjustment from the 2019G Six Month Interim Period Financial Statements. The 2019G Nine Month Interim Period Financial Statements have been prepared in accordance with IAS 34 and are included as Appendix A to this Prospectus.

The 2018G SABIC Financial Statements have been prepared in accordance with IFRS and have been audited by SABIC’s independent auditor, Ernst & Young & Co. (Certified Public Accountants), as stated in its audit report. The 2019G SABIC Six Month Interim Financial Statements have been prepared in accordance with IAS 34. The financial information included in this Prospectus relating to SABIC has, unless otherwise indicated, been derived without material adjustment from the SABIC Financial Statements. The 2019G SABIC Nine Month Interim Financial Statements have been prepared in accordance with IAS 34 and are included as Appendix B to this Prospectus. For further information on the Company’s proposed acquisition of an equity interest in SABIC, see Section 4.2 (*Proposed Acquisitions*).

Prospective investors are advised to consult their professional advisors for an understanding of the impact that future additions to, or amendments of, IFRS may have on the Company’s or SABIC’s, as the case may be, financial position, results of operations and cash flow, as well as on the comparability of the prior periods.

In addition, this Prospectus includes certain non-IFRS financial measures. See “*Non-IFRS Financial Measures*” below.

### Fiscal Regime Changes

The Government has adopted a number of changes to the fiscal regime under which the Company operates since 1 January 2017G. These changes materially impact the Company’s results of operations and make the Company’s consolidated financial statements for certain periods presented less comparable. For a more detailed discussion of the fiscal regime changes and their effect on the Company’s consolidated financial statements, see Section 7.3.6 (*Fiscal Regime Changes*).

### Certain Reserves and Production Information

All natural resources within the Kingdom, including hydrocarbons, are owned by the Kingdom. Through the Concession, the Government has granted the Company the exclusive right to explore, develop and produce the Kingdom’s hydrocarbon resources, except in the Excluded Areas. See Section 4.14.2 (*The Concession*). Unless otherwise indicated, any reference in this Prospectus to reserves of crude oil and condensate, natural gas or other hydrocarbons are reserves owned by the Kingdom that the Company has the right to operate and develop through

the Concession and excludes reserves other entities have the right to develop, including AGOC, the Company's wholly owned subsidiary, which operates in the partitioned territory between the Kingdom and the State of Kuwait.

The reserve estimates in this Prospectus conform to the SPE-PRMS definitions and guidelines, which are the internationally recognised industry standards promulgated by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts and the European Association of Geoscientists and Engineers. Reserve estimation is an inherently complex process that principally relies on a combination of knowledge, experience and engineering judgment. The accuracy of any reserve estimate is a function of a number of variable factors and assumptions, many of which are beyond the Company's control. Therefore, the reserves information in this Prospectus represent only estimates. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revising the original estimate. Accordingly, due to the inherent uncertainties and the necessarily limited nature of reservoir data and the inherently imprecise nature of reserve estimates, the initial reserve estimates may differ from the quantities of oil and natural gas that are ultimately recovered. The meaningfulness of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Thus, investors should not place undue reliance on the Company's ability to predict actual reserves or on comparisons of similar reports concerning other companies. In addition, except to the extent that the Company conducts successful exploration and development activities, or both, the Company's reserves will decline as reserves are produced. For more information, see Section 4.7.1.1 (*Reserves*).

Pursuant to an agreement between the Kingdom and the Kingdom of Bahrain regarding the Abu Sa'fah field, the Kingdom of Bahrain is entitled to 50% of revenues from crude oil produced from Abu Sa'fah. For the years ended 31 December 2016G, 2017G and 2018G, the Kingdom of Bahrain has opted to receive 50% of the volume of crude oil produced from Abu Sa'fah rather than the revenue. The Company's MSC includes 100% of the volumes produced from Abu Sa'fah. However, the Company's production does not include crude oil produced from Abu Sa'fah delivered to the Kingdom of Bahrain, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016G, 2017G and 2018G, respectively.

### **Industry and Other Information**

This Prospectus includes information regarding the industry and the geographies in which the Company operates and competes. The statistical, graphical and other information contained herein in Section 3 (*Industry Overview*) has been drawn from the Industry Consultant's databases and other sources. Maps contained in this Prospectus are for reference only and do not necessarily reflect international borders or other locations accurately.

Certain economic and industry data and forecasts used in this Prospectus were obtained from internal surveys, market research, governmental and other publicly available information, independent industry publications and reports or other information prepared by industry consultants, including the information prepared for the Company by the Industry Consultant. These generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this Prospectus. See "*Forecasts and Forward-Looking Statements*" on page ix.

Elsewhere in this Prospectus, statements regarding the oil and gas industry and the Company's position in the industry are not based on published statistical data or information obtained from independent third parties, but are based solely on the Company's experience, its internal studies and estimates and its own investigation of industry conditions.

The Industry Consultant does not, nor do any of its subsidiaries, affiliate companies, partners, shareholders, directors, managers or their relatives, own any shares or any interest of any kind in the Company. As at the date of this Prospectus, the Industry Consultant has given and not withdrawn its written consent for the use of its name, information and data supplied by it to the Company in the manner and format set out in this Prospectus. The Industry Consultant provides research, data and advisory services to major international companies, as well as public institutions. It operates in several fields and services, principally energy, finance, transportation and petrochemicals.

The Directors believe that the information and data from third party sources contained in this Prospectus, including those derived from public sources or provided by the Industry Consultant, are reliable. However, such information and data have not been independently verified by the Company, the Directors, the Advisors or the

Selling Shareholder, and thus none of them bears any liability for the accuracy or completeness of such information or data. For more information about the Industry Consultant, see Section 3 (*Industry Overview*).

## Currencies and Exchange Rates

All references in this Prospectus to:

- “**Saudi Riyal**” and “**SAR**” are to the Saudi Arabian Riyal, the legal currency of the Kingdom; and
- “**U.S. Dollar**”, “**\$**” and “**U.S.\$**” are to the United States Dollar, the legal currency of the United States.

For all periods presented in this Prospectus, the Saudi Riyal has been pegged to the U.S. Dollar at a fixed exchange rate of SAR 3.75 = U.S.\$1.00. In cases where amounts included in this Prospectus were converted from Saudi Riyals into U.S. Dollars, this fixed exchange rate has been used for convenience. No representation is made that Saudi Riyal amounts referred to could have been or could be converted into U.S. Dollars at any particular rate on any date.

## Non-IFRS Financial Measures

This Prospectus includes certain non-IFRS financial measures, which the Company uses in the analysis of its business and financial position. The definition, method of calculation and rationale for the inclusion of such measures are summarised on the following table.

**Table 1: Non-IFRS Financial Measures**

Non-IFRS Financial Measure	Definition and method of calculation	Rationale
Earnings Before Interest and Taxes (“ <b>EBIT</b> ”)	Calculated as net income plus finance costs and income taxes, less finance income.	Performance measure
Earnings Before Interest, Taxes, Depreciation and Amortisation (“ <b>EBITDA</b> ”)	Calculated as EBIT, plus depreciation and amortisation and impairments.	Performance measure
Free Cash Flow	Calculated as net cash provided by operating activities less capital expenditures.	Liquidity measure
Gearing	Calculated as the ratio of (i) total borrowings less cash and cash equivalents to (ii) total borrowings less cash and cash equivalents plus total equity.	Liquidity measure
Return on Average Capital Employed (“ <b>ROACE</b> ”)	Calculated as net income before finance costs, net of tax, for a period as a percentage of average capital employed during that period. Average capital employed is the average of the Company’s total borrowings plus total equity at the beginning and end of the applicable period.	Performance measure

Source: Company.

The above non-IFRS financial measures have been included in this Prospectus to facilitate a better understanding of the Company’s historic trends of operation and financial position. The Company uses non-IFRS financial measures as supplementary information to its IFRS based operating performance or financial position. The non-IFRS financial measures are not defined by, or presented in accordance with, IFRS. The non-IFRS financial measures are not measurements of the Company’s operating performance or liquidity under IFRS and should not be used instead of, or considered as alternatives to, any measures of performance or liquidity under IFRS. The non-IFRS financial measures relate to the reporting periods described in this Prospectus and are not intended to be predictive of future results. In addition, other companies, including those in the Company’s industry, may calculate similarly titled non-IFRS financial measures differently from the Company. Because companies do not necessarily calculate these non-IFRS financial measures in the same manner, the Company’s presentation of such non-IFRS financial measures may not be comparable to other similarly titled non-IFRS financial measures used by other companies.

For a reconciliation of certain of the non-IFRS financial measures used in this Prospectus to the most closely related financial measure set forth in the Financial Statements, see Section 7.4.2 (*Non-IFRS Financial Measures*).



## FORECASTS AND FORWARD-LOOKING STATEMENTS

This Prospectus and any supplement thereto may contain certain forward-looking statements with respect to the Company's financial position, results of operations and business and certain of the Company's plans, intentions, expectations, assumptions, goals and beliefs. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as "believes", "expects", "are expected to", "anticipates", "intends", "estimates", "should", "will", "shall", "may", "is likely to", "plans" or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Company's actual financial position, results of operations and business and the development of the industries in which it operates may differ significantly from those made in or suggested by these forward-looking statements. In addition, even if the Company's financial position, results of operations and business and the development of the industries in which it operates are consistent with these forward-looking statements, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Prospectus and include, among other things, the following:

- oil and gas supply, demand and price fluctuations;
- global economic market conditions;
- competition in the industries in which the Company operates;
- conditions affecting the transportation of products;
- operational risk and hazards common in the oil and gas, refining and petrochemicals industries;
- the cyclical nature of the oil and gas, refining and petrochemicals industries;
- weather conditions;
- political and social instability and unrest and actual or potential armed conflicts in the MENA region and other areas;
- managing the Company's growth;
- risks in connection with projects under development and recent and future acquisitions and joint ventures, including with respect to SABIC;
- managing the Company's subsidiaries, joint operations, joint ventures, associates and entities in which it holds a minority interest;
- the Company's exposure to interest rate risk and foreign exchange risk;
- risks related to operating in a regulated industry and changes to oil, gas, environmental or other regulations that impact the industries in which the Company operates; and
- international trade litigation, disputes or agreements.

Sections 2 (*Risk Factors*) and 7 (*Management's Discussion and Analysis of Financial Position and Results of Operations*) contain a more complete discussion of the factors that could affect the Company's future performance and the industries in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

In accordance with the OSCO Rules, the Company will submit a supplementary prospectus to the CMA if, at any time after this Prospectus has been published and before completion of the Offering, the Company becomes aware that:

- (a) there has been a significant change in material matters contained in this Prospectus or any document required under the OSCO Rules; or
- (b) additional significant matters have become known which would have been required to be included in this Prospectus.

Except for these two cases, the Company undertakes no obligation to update or revise any information regarding the industry, market or forward-looking statements included in the Prospectus, whether as a result of new information, future events or otherwise. Based on the foregoing risks, assumptions and other uncertainties,

forward-looking events and conditions described in this Prospectus may not occur as expected by the Company or at all. Consequently, prospective investors should review all forward-looking statements based on these explanations and should not rely solely on forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

## CORPORATE DIRECTORY

**Table 2: The Company's Board of Directors**

Name	Position	Nationality	Status	Direct Share Ownership		Indirect Share Ownership		Original Date of Appointment to the Board	Date of Appointment to the Current Board
				Pre-Offering	Post-Offering	Pre-Offering	Post-Offering		
H.E. Yasir O. Al-Rumayyan	Chairman	Saudi	Non-Independent	—	—	—	—	15/9/1437H (corresponding to 20/6/2016G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Ibrahim A. Al-Assaf	Deputy Chairman	Saudi	Non-Independent	—	—	—	—	15/9/1419H (corresponding to 2/1/1999G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Mohammed A. Al-Jadaan	Director	Saudi	Non-Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Mohammad M. Al-Tuwaijri	Director	Saudi	Non-Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Nabeel M. Al-Amudi	Director	Saudi	Non-Independent	—	—	—	—	4/1/1441H (corresponding to 3/9/2019G)	4/1/1441H (corresponding to 3/9/2019G)
Sir Mark Moody-Stuart	Director	British	Independent	—	—	—	—	15/9/1428H (corresponding to 27/9/2007G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Andrew N. Liveris	Director	Australian	Independent	—	—	—	—	17/10/1439H (corresponding to 1/7/2018G)	17/10/1439H (corresponding to 1/7/2018G)
Mr. Andrew F. J. Gould	Director	British	Independent	—	—	—	—	15/9/1434H (corresponding to 23/7/2013G)	8/8/1439H (corresponding to 24/4/2018G)
Ms. Lynn Laverty Elsenhans	Director	American	Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Peter L. Cella	Director	American	Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Amin H. Nasser	Director, President and Chief Executive Officer	Saudi	Executive	—	—	—	—	17/11/1431H (corresponding to 25/10/2010G)	8/8/1439H (corresponding to 24/4/2018G)

Source: Company.

For more information, see Section 6.5 (*Biographies of the Directors*).

## Address

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### Mr. Khalid H. Al-Dabbagh

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## Secretary of the Board of Directors

### Mr. Nabeel A. Al Mansour

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## Independent Auditor for SABIC

### **Ernst & Young & Co.** (Certified Public Accountants)

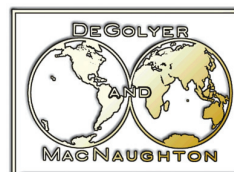
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## Petroleum Consultant

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Each of the Advisors, Consultants, Auditor and SABIC Auditor has given and, as at the date of this Prospectus, not withdrawn its written consent to the publication of its name, address, and logo and the statements attributed to it in the context in which they appear in this Prospectus and it does not, nor do its employees, or any of their relatives or any of its affiliates, have any shareholding or interest of any kind in Saudi Aramco as at the date of this Prospectus.

The information contained on, or that can be accessed through, any website mentioned in this Prospectus is not a part of, and should not be considered as being incorporated by reference into, this Prospectus.

## Receiving Entities

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Kingdom of Saudi Arabia  
Tel: +966 12 646 4000  
Fax: +966 12 646 4466  
Website: www.alahli.com  
E-mail: contactus@alahli.com



### Saudi British Bank (SABB)

Prince Abdulaziz bin Mosaad bin Jelwi Street  
P.O. Box 9084  
Riyadh 11413  
Kingdom of Saudi Arabia  
Tel: +966 11 440 8440  
Fax: +966 11 276 3414  
Website: www.sabb.com  
E-mail: sabb@sabb.com



### Samba Financial Group

King Abdulaziz Road  
P.O. Box 833  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 11 477 4770  
Fax: +966 11 479 9402  
Website: www.samba.com  
E-mail: customercare@samba.com



### Al Rajhi Bank

King Fahad Road  
P.O. Box 28  
Riyadh 11411  
Kingdom of Saudi Arabia  
Tel: +966 11 828 2515  
Fax: +966 11 279 8190  
Website: www.alrajhibank.com.sa  
E-mail: contactcenter1@alrajhibank.com.sa



### Alawwal Bank

Prince Abdulaziz bin Mosaad bin Jelwi Street  
P.O. Box 1476  
Riyadh 11431  
Kingdom of Saudi Arabia  
Tel: +966 11 401 0288  
Fax: +966 11 403 1104  
Website: www.alawwalbank.com  
E-mail: csc@alawwalbank.com



### Alinma Bank

King Fahad Road  
P.O. Box 66674  
Riyadh 11586  
Kingdom of Saudi Arabia  
Tel: +966 11 218 5252  
Fax: +966 11 218 5255  
Website: www.alinma.com  
E-mail: info@alinma.com



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**Arab National Bank**

King Faisal Street  
P.O. Box 56921  
Riyadh 11564  
Kingdom of Saudi Arabia  
Tel: +966 11 402 9000  
Fax: +966 11 402 7747  
Website: www.anb.com.sa  
E-mail: info@anb.com.sa



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**Bank Albilad**

King Abdullah Road  
P.O. Box 140  
Riyadh 11411  
Kingdom of Saudi Arabia  
Tel: +966 11 479 8888  
Fax: +966 11 479 8505  
Website: www.bankalbilad.com  
E-mail: customercare@bankalbilad.com



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**Bank Aljazira**

King Abdulaziz Road  
P.O. Box 6277  
Jeddah 21441  
Kingdom of Saudi Arabia  
Tel: +966 9 2000 6666  
Fax: +966 11 431 5803  
Website: www.baj.com.sa  
E-mail: info@baj.com.sa



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**Banque Saudi Fransi**

King Saud Road  
P.O. Box 56006  
Riyadh 11554  
Kingdom of Saudi Arabia  
Tel: +966 11 289 1136  
Fax: +966 11 403 7261  
Website: www.alfransi.com.sa  
E-mail: communications@alfransi.com.sa



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**Gulf International Bank**

Eastern Ring Road  
P.O. Box 93413  
Riyadh 11673  
Kingdom of Saudi Arabia  
Tel: +966 11 510 3333  
Fax: +966 11 510 3394  
Website: www.gib.com  
E-mail: corporatecommunications@gib.com



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**Riyad Bank**

Eastern Ring Road  
P.O. Box 22622  
Riyadh 11614  
Kingdom of Saudi Arabia  
Tel: +966 11 401 3030  
Fax: +966 11 403 0016  
Website: www.riyadbank.com  
E-mail: customercare@riyadbank.com



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**The Saudi Investment Bank**

Al-Maather Street

P.O. Box 3533

Riyadh 11481

Kingdom of Saudi Arabia

Tel: +966 11 874 3000

Fax: +966 11 478 1557

Website: [www.saib.com.sa](http://www.saib.com.sa)

E-mail: [info@saib.com.sa](mailto:info@saib.com.sa)

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البنك السعودي للاستثمار  
The Saudi Investment Bank



## OFFERING SUMMARY

This summary provides a brief overview of the information contained in this Prospectus. As such, it does not contain all the information that may be important to prospective investors in making a decision to invest in the Offer Shares. Accordingly, this summary must be read as an introduction to this Prospectus, and any decision to invest in the Offer Shares should be based on a consideration of this Prospectus as a whole. In particular, it is important to carefully consider the “Important Notice” on page i and Section 2 (Risk Factors) of this Prospectus prior to making an investment decision with respect to the Offer Shares.

<b>Company Name, Description and Establishment Information</b>	Saudi Aramco was originally established in the Kingdom by virtue of Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) as a company wholly owned by the Government with a fully paid share capital of sixty billion Saudi Riyals (SAR 60,000,000,000). It became a Saudi joint stock company on 14/4/1439H (corresponding to 1 January 2018G) by virtue of the Bylaws, which were approved by Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G). Saudi Aramco is registered in the city of Dhahran under commercial registration No. 2052101150 dated 11/7/1439H (corresponding to 28 March 2018G) with its headquarters based in Dhahran. The current share capital of Saudi Aramco is sixty billion Saudi Riyals (SAR 60,000,000,000), consisting of two hundred billion (200,000,000,000) ordinary shares with no par value.																																									
<b>Company’s Objectives</b>	In accordance with the Bylaws, the main objective of the Company shall be to engage in any activities relating to the energy industry, including hydrocarbons, chemicals and other associated and complementary industries, or any other activity, in or outside the Kingdom. See Section 13.13.3 ( <i>Objectives of the Company</i> ).																																									
<b>Selling Shareholder/Substantial Shareholder</b>	<p>The name and ownership interest of the Selling Shareholder (who is also the sole Substantial Shareholder) pre- and post-offering is provided in the following table.</p> <p><b>Table 3: Selling Shareholder and the ownership interests in the Company pre- and post-Offering</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #5da5da; color: white;"> <th rowspan="2">Shareholder</th> <th colspan="3">Pre-Offering</th> <th colspan="3">Post-Offering<sup>(1)</sup></th> </tr> <tr style="background-color: #5da5da; color: white;"> <th>No. of Shares</th> <th>Percent</th> <th>Share Capital (SAR)</th> <th>No. of Shares<sup>(2)</sup></th> <th>Percent</th> <th>Share Capital (SAR)</th> </tr> </thead> <tbody> <tr> <td>Government<sup>(3)</sup></td> <td style="text-align: right;">200,000,000,000</td> <td style="text-align: right;">100%</td> <td style="text-align: right;">60,000,000,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Public</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Company Treasury<sup>(4)</sup></td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td></td> <td></td> <td></td> </tr> <tr style="border-top: 2px solid black; border-bottom: 2px solid black;"> <td><b>Total</b></td> <td style="text-align: right;"><b>200,000,000,000</b></td> <td style="text-align: right;"><b>100%</b></td> <td style="text-align: right;"><b>60,000,000,000</b></td> <td style="text-align: right;"><b>200,000,000,000</b></td> <td style="text-align: right;"><b>100%</b></td> <td style="text-align: right;"><b>60,000,000,000</b></td> </tr> </tbody> </table> <p>Source: Company.</p> <p>(1) To be determined at the end of the Book-Building Period.  (2) Senior Executives may purchase Shares from the Government concurrently with the consummation of the Offering. Such Shares will not count towards the public float.  (3) The Selling Shareholder undertakes to disclose details of any disposition of its Shares, upon completion of such disposition, after the commencement of trading of the Shares on the Exchange.  (4) Concurrently with the closing of the Offering, the Government will sell Shares with a value of \$1.0 billion (based on the Final Offer Price) to the Company for use under the Saudi Aramco Share Plan. See Section 6.9 (<i>Saudi Aramco Share Plan</i>).</p>	Shareholder	Pre-Offering			Post-Offering <sup>(1)</sup>			No. of Shares	Percent	Share Capital (SAR)	No. of Shares <sup>(2)</sup>	Percent	Share Capital (SAR)	Government <sup>(3)</sup>	200,000,000,000	100%	60,000,000,000				Public	—	—	—				Company Treasury <sup>(4)</sup>	—	—	—				<b>Total</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>
Shareholder	Pre-Offering			Post-Offering <sup>(1)</sup>																																						
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Public	—	—	—																																							
Company Treasury <sup>(4)</sup>	—	—	—																																							
<b>Total</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>																																				
<b>Share Capital (as at the date of this Prospectus)</b>	Sixty billion Saudi Riyals (SAR 60,000,000,000), which is fully paid. Saudi Aramco’s share capital will not change as a result of this Offering.																																									
<b>Total Number of Issued Shares (as at the date of this Prospectus)</b>	Two hundred billion (200,000,000,000) Shares. The number of outstanding Shares will not change as a result of this Offering.																																									
<b>Nominal Value per Share</b>	The Shares have no par value.																																									
<b>Offering</b>	Offering of ordinary shares of Saudi Aramco, representing % of its share capital.																																									
<b>Total Offering Amount</b>	SAR .																																									

<b>Offering Period</b>	The offering period begins on 20/3/1441H (corresponding to 17 November 2019G) and closes at the end of 7/4/1441H (corresponding to 4 December 2019G).
<b>Book-Building Period</b>	The offering period for Institutional Subscribers will begin on 20/3/1441H (corresponding to 17 November 2019G) and will close at the end of 7/4/1441H (corresponding to 4 December 2019G).
<b>Retail Offering Period</b>	The offering period for Individual Investors will begin on 20/3/1441H (corresponding to 17 November 2019G) and will close at the end of 1/4/1441H (corresponding to 28 November 2019G).
<b>Offer Price Range</b>	SAR 30 to SAR 32 per Offer Share.
<b>Final Offer Price</b>	<p>The Final Offer Price of the Offer Shares will be determined by the Selling Shareholder, Saudi Aramco, the Joint Financial Advisors and the Joint Global Coordinators at the end of the Book-Building Period (for further details, see Section 18 (<i>Subscription Terms and Conditions</i>)).</p> <p>The Final Offer Price of SAR        per Share will be the price at which all Subscribers in the Offering will purchase Offer Shares.</p> <p>Following the Book-Building Period, (1) Saudi Aramco, the Joint Financial Advisors and the Joint Global Coordinators will announce the aggregate amount of Offer Shares subscribed for relative to the number of Offer Shares sold in the Offering and (2) Saudi Aramco will publish an announcement in local and international media outlets, as well as on its website, setting out the Final Offer Price, the number of Offer Shares to be sold in the Offering and the percentage that the Offer Shares to be sold represent of the outstanding Shares.</p>
<b>IPO Retail Incentive—Bonus Shares</b>	Each Eligible Retail Bonus Investor who continuously and uninterruptedly holds Offer Shares allocated to Individual Investors for the Bonus Holding Period will be entitled to receive one Bonus Share for every ten allocated Offer Shares so held, up to a maximum of 100 Bonus Shares. The Bonus Shares will be allocated from Shares owned by the Selling Shareholder. No person will have any right to the Bonus Shares until the Bonus Shares have been deposited into the account of such person. For further details, see Section 18.1.6 ( <i>IPO Retail Incentive—Bonus Shares</i> ).
<b>Eligible Retail Bonus Investor</b>	A Saudi Arabian national, including a Saudi female divorcee or widow with minor Saudi children; <i>provided</i> that if a Retail Subscription Form is submitted for a Saudi Arabian national applying for himself or herself and other persons appearing on such national’s family identification card, then each such Saudi Arabian family member will be considered to be an Eligible Retail Bonus Investor. The determination of whether Eligible Shares have been continuously and uninterruptedly held for the Bonus Holding Period will be made separately for each Eligible Retail Bonus Investor, including any person considered to be an Eligible Retail Bonus Investor pursuant to the proviso in the previous sentence.
<b>Use of Proceeds</b>	The Selling Shareholder will receive all of the proceeds of the Offering.
<b>Number of Offer Shares to be Underwritten</b>	All the Offer Shares will be underwritten on a settlement risk basis, the number and value of which shall be determined following the end of the Book-Building Period, determination of the Final Offer Price and the allocation of Offer Shares to Institutional Investors. For further details, please see Sections 15 ( <i>Underwriting</i> ) and 17 ( <i>Waivers</i> ).
<b>Total Offering Amount to be Underwritten</b>	All the Offer Shares will be underwritten on a settlement risk basis, the number and value of which shall be determined following the end of

	the Book-Building Period, determination of the Final Offer Price and the allocation of Offer Shares to Institutional Investors. The total value of such underwritten Offer Shares is SAR , calculated based on the Final Offer Price of SAR per Share.
<b>Categories of Targeted Investors in the Offering</b>	<p>The Offering is restricted to the following two groups of investors:</p> <p><b>Tranche (A) (Institutional Subscribers):</b> institutional subscribers comprise the institutional investors eligible to participate in the book-building process as specified under the Book-Building Instructions (for further details, see Sections 1 (<i>Definitions and Abbreviations</i>) and 18 (<i>Subscription Terms and Conditions</i>)); and</p> <p><b>Tranche (B) (Individual Investors):</b> individual investors comprise Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.</p>
<b>Total Number and Percentage of Offer Shares for each Targeted Investor Category</b>	
<b>Percentage of Offer Shares for Institutional Subscribers</b>	Institutional Subscribers are to be allocated Offer Shares, representing % of the total Offer Shares.
<b>Percentage of Offer Shares for Individual Investors</b>	Individual Investors are to be allocated Offer Shares, representing % of the total Offer Shares.
<b>Allocation of Offer Shares between Tranche (A) and Tranche (B)</b>	The Company and the Selling Shareholder, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, determine the number of Offer Shares to be allocated to Institutional Investors and Individual Investors.
<b>Subscription Method for each Targeted Investor Category</b>	
<b>Subscription Method for Institutional Subscribers registered in the Kingdom</b>	Institutional Subscribers registered in the Kingdom may submit a Bid Form during the Book-Building Period to be made available by the Joint Financial Advisors and Institutional Joint Bookrunners, in accordance with the instructions mentioned in Section 18 ( <i>Subscription Terms and Conditions</i> ). Institutional Subscribers registered in the Kingdom must complete the Institutional Investors Subscription Form within two days of allocation of Offer Shares based on the number of Offer Shares allocated to them.
<b>Subscription Method for Institutional Subscribers not registered in the Kingdom</b>	Institutional Subscribers not registered in the Kingdom may apply for subscription with the Joint Bookrunners telephonically or electronically, without the need to complete and sign a Bid Form, in accordance with the instructions mentioned in Section 18 ( <i>Subscription Terms and Conditions</i> ). In addition, the Institutional Subscribers shall confirm their consent with regard to subscription for the Offer Shares allocated to them on the day of the allocation of the Offer Shares by submitting a Bid/Subscription Order telephonically or electronically, without the need to complete and sign an Institutional Investors Subscription Form.
<b>Subscription Method for Individual Investors</b>	Retail Subscription Forms will be available during the Retail Offering Period at all Receiving Entities' branches. Retail Subscription Forms must be completed in accordance with the instructions mentioned in Section 18 ( <i>Subscription Terms and Conditions</i> ). Individual Investors who have participated in recent initial public offerings in the Kingdom

	<p>can also subscribe through the internet, telephone banking or automated teller machines (“ATMs”) of any of the Receiving Entities branches that offer any or all such services to its customers, <i>provided</i> that the following requirements are satisfied: (i) the Individual Investor must have a bank account at a Receiving Entity which offers such services and (ii) there have been no changes in the personal information or data of the Individual Investor since such person’s subscription in the last initial public offering.</p>
<b>Minimum and Maximum Number of Offer Shares to be Applied for each Targeted Investor Category</b>	
<b>Minimum and Maximum Number of Offer Shares to be Applied for by Institutional Subscribers</b>	There is no minimum or maximum number of Offer Shares that can be applied for by Institutional Subscribers.
<b>Minimum and Maximum Number of Offer Shares to be Applied for by Individual Investors</b>	Each Individual Investor must submit a Retail Subscription Form and must subscribe in multiples of ten (with a minimum subscription of ten Offer Shares) at the Final Offer Price of SAR        per Share. There is no maximum number of shares that can be applied for by Individual Investors.
<b>Minimum and Maximum Subscription Amount by each Targeted Investor Category</b>	
<b>Minimum and Maximum Subscription Amount for Institutional Subscribers</b>	There is no minimum or maximum subscription amount for Institutional Subscribers.
<b>Minimum and Maximum Subscription Amount for Individual Investors</b>	Each Individual Investor who subscribes to the Offer Shares must submit a Retail Subscription Form and must subscribe for Offer Shares in multiples of ten (with a minimum subscription of ten Offer Shares) at the Final Offer Price of SAR        per Share. There is no maximum subscription amount for Individual Investors.
<b>Stabilisation and Over-allotment Option</b>	
<b>Stabilisation and Over-allotment Option</b>	<p>In connection with the Offering, the Stabilising Manager may effect transactions to stabilise the market price of the Shares to the extent permitted by the Stabilisation Instructions. Such transactions may be effected on the Exchange and may be undertaken at any time during the Stabilising Period. However, the Stabilising Manager is under no obligation to undertake any stabilising transactions and such stabilisation, if commenced, may be discontinued at any time without prior notice. The Stabilising Manager will disclose any allocation of over-allotments and price stabilisation processes undertaken in connection with the Offering to the extent required by the Stabilisation Instructions.</p> <p>In order to allow the Stabilising Manager to cover short positions resulting from any over-allotments, the Selling Shareholder will grant the Stabilising Manager the Over-allotment Option pursuant to which the Stabilising Manager may purchase the Over-allotment Shares at the Final Offer Price. The Over-allotment Option will be exercisable in whole or in part upon notice by the Stabilising Manager at its discretion at any time during the Stabilising Period. The Over-allotment Shares will be the same class and have all the same rights as the Offer Shares, including with respect to all dividends and other distributions, and will be traded on the Exchange on the same terms and conditions as the Offer Shares.</p>
<b>Allocation of Offer Shares and Refund of Excess Subscription Monies</b>	
<b>Allocation of Offer Shares to Institutional Subscribers</b>	The number and percentage of Offer Shares which will be allocated to the Institutional Subscribers who have participated in the book-building will be determined by the Selling Shareholder and Saudi Aramco in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators.

<b>Allocation of Offer Shares to Individual Investors</b>	The number and percentage of Offer Shares, which will be allocated to the Individual Investors will be determined by the Selling Shareholder and Saudi Aramco in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators. The targeted percentage of Offer Shares allocable to Individual Investors will be up to 0.5% of the Shares.
<b>Refund of Excess Subscription Monies</b>	Any surplus subscription amounts will be refunded without any charge or withholding by the relevant Receiving Entity, as specified in the Retail Subscription Form. Notification of the final allotment and refund of subscription monies, if any, will be made at the latest by 15/4/1441H (corresponding to 12 December 2019G) (for further details, see “ <i>Key Dates and Subscription Procedures</i> ” on page xxxii).
<b>Other Matters Related to the Offering</b>	
<b>Dividend Distributions</b>	The Company will pay dividends to non-Government Shareholders in SAR and to the Government in U.S. Dollars. Holders of the Offer Shares will be entitled to receive any dividends declared by the Company from (and including) the date of announcement of the final allocation of Offer Shares to Institutional Subscribers and Individual Investors referred to in Table 4 ( <i>Expected Offering Timeline</i> ). For further details, see Section 8 ( <i>Dividend Distribution Policy and Dividends Framework</i> ).
<b>Voting Rights</b>	The Company has one class of Shares. Each Share entitles its holder to one vote and each Shareholder has the right to attend and vote at General Assemblies. A Shareholder has the right to delegate another Shareholder, but not a member of the Board of Directors, to attend General Assemblies on its behalf (for further details, see Section 13.13.24 ( <i>Shareholders’ Assemblies</i> )).
<b>Restrictions on the Shares (Lock-up Period)</b>	<p>Pursuant to the OSCO Rules, the Substantial Shareholder (who is also the Selling Shareholder) will be prohibited from disposing of its Shares for the Statutory Lock-up Period. As an exception, and pursuant to the waiver set out in Section 17 (<i>Waivers</i>), the Selling Shareholder may sell its Shares to the following: (1) any foreign government (or its government-related entities as defined in the QFI Rules) or (2) any Foreign Strategic Investor affiliated with a foreign government. The Selling Shareholder undertakes to publicly announce any disposition of Shares made pursuant to the exceptions set forth in clauses (1) or (2) above promptly after such disposition during the Statutory Lock-up Period.</p> <p>The Listing Rules will prohibit the Company from listing additional Shares for a period of six months after the commencement of trading of the Shares on the Exchange (which is equivalent to the Statutory Lock-up Period).</p> <p>In addition to the aforementioned, the Selling Shareholder and the Company have agreed to the following:</p> <ul style="list-style-type: none"> <li>(a) Pursuant to the Underwriting Agreement, the Selling Shareholder will not sell any of its Shares during the twelve-month period following the initial date of the public listing of Shares on the Exchange (“<b>Contractual Lock-Up Period</b>”), except to (1) any foreign government (or its government-related entities as defined in the QFI Rules) or (2) any Foreign Strategic Investor affiliated with a foreign government. The agreement with the procuring entity shall include that it is subject to the remainder of the Contractual Lock-Up Period as specified in this Prospectus and as provided for in the Underwriting Agreement, as well as any restrictions or prohibitions imposed by applicable rules and regulations, and any other restrictions agreed with the procuring entity.</li> <li>(b) Pursuant to the Coordination Agreement, the Company will not issue new Shares during the Contractual Lock-Up Period.</li> </ul>

	<p>The restrictions set forth in clause (a) above do not apply to the transfer of Bonus Shares by the Selling Shareholder to Eligible Retail Bonus Investors after the expiration of the Statutory Lock-Up Period, as described in this Prospectus.</p> <p>The restrictions set forth in clauses (a) and (b) above will not apply during the Contractual Lock-up Period (after the expiry of the Statutory Lock-up Period) (i) to the actions of the Selling Shareholder in relation to its Shares if one-third (i.e. three) (or more) of the Joint Global Coordinators (or their affiliates) that are party to the Underwriting Agreement agree to the actions of the Selling Shareholder (pursuant to the Underwriting Agreement) or (ii) to the Company's issuance of new Shares during the Contractual Lock-Up Period if one-third (i.e. three) (or more) of the Joint Global Coordinators agree to such issuances (pursuant to the Coordination Agreement).</p> <p>For further information, see Section 15.4 (<i>Contractual Lock-Up Period</i>).</p>
<b>Listing of Shares</b>	<p>Prior to the Offering, there has been no public market for the Shares in the Kingdom or elsewhere. An application has been made by Saudi Aramco to the CMA for the registration and Listing of the Shares on the Exchange. All relevant regulatory and corporate approvals required to conduct the Offering have been granted, including approvals pertaining to the publication of this Prospectus, with all supporting documents submitted to the CMA. Trading is expected to commence on the Exchange after completion of the allocation of the Offer Shares and fulfilment of applicable regulatory requirements (for further details, see "<i>Key Dates and Subscription Procedures</i>" on page xxxii).</p>
<b>Risk Factors</b>	<p>There are certain risks related to the investment in the Offer Shares. These risks can be categorised into: (i) risks related to the Company's operations; (ii) risks related to the Company's industry and regulatory environment; and (iii) risks related to the Shares. These risks are described in Section 2 (<i>Risk Factors</i>) and should be considered carefully prior to making an investment decision with respect to the Offer Shares.</p>
<b>Offering Expenses</b>	<p>The Selling Shareholder will reimburse Saudi Aramco for all fees, costs and expenses incurred in connection with the Offering. These fees, costs and expenses include the amounts payable to the Advisors, Consultants, Auditor, SABIC Auditor and Receiving Entities, legal, marketing, printing and distribution expenses and other relevant expenses.</p>
<b>Joint Financial Advisors</b>	<p>Citigroup Saudi Arabia  Credit Suisse Saudi Arabia  Goldman Sachs Saudi Arabia  HSBC Saudi Arabia  J.P. Morgan Saudi Arabia Company  Merrill Lynch Kingdom of Saudi Arabia  Morgan Stanley Saudi Arabia  NCB Capital Company  Samba Capital &amp; Investment Management Company</p>
<b>Joint Global Coordinators</b>	<p>Citigroup Global Markets Limited  Credit Suisse Securities (Europe) Limited  Goldman Sachs International  HSBC Saudi Arabia  J.P. Morgan Securities plc  Merrill Lynch Kingdom of Saudi Arabia  Morgan Stanley &amp; Co. International plc  NCB Capital Company  Samba Capital &amp; Investment Management Company</p>

<b>Institutional Joint Bookrunners</b>	<p>           HSBC Saudi Arabia            Merrill Lynch Kingdom of Saudi Arabia            NCB Capital Company            Samba Capital &amp; Investment Management Company            Al Rajhi Capital            EFG Hermes KSA            GIB Capital            Riyadh Capital            Saudi Fransi Capital         </p>
<b>Foreign Institutional Joint Bookrunners (residing outside the Kingdom)</b>	<p>           Citigroup Global Markets Limited            Credit Suisse Securities (Europe) Limited            Goldman Sachs International            J.P. Morgan Securities plc            Morgan Stanley &amp; Co. International plc            Banco Santander, S.A.            BNP PARIBAS            BOCI Asia Limited            Crédit Agricole Corporate and Investment Bank            Deutsche Bank AG, London Branch            First Abu Dhabi Bank PJSC            Mizuho International plc            RBC Europe Limited            SMBC Nikko Capital Markets Limited            Société Générale            UBS AG, London Branch         </p>
<b>Underwriters</b>	<p>           Citigroup Saudi Arabia            Credit Suisse Securities (Europe) Limited            Goldman Sachs International            HSBC Saudi Arabia            J.P. Morgan Securities plc            Merrill Lynch Kingdom of Saudi Arabia            Morgan Stanley &amp; Co. International plc            NCB Capital Company            Samba Capital &amp; Investment Management Company            Al Rajhi Capital            Banco Santander, S.A.            BNP PARIBAS            BOCI Asia Limited            Crédit Agricole Corporate and Investment Bank            Deutsche Securities Saudi Arabia            EFG Hermes KSA            First Abu Dhabi Bank PJSC            GIB Capital            Mizuho International plc            RBC Europe Limited            Riyadh Capital            Saudi Fransi Capital            SMBC Nikko Capital Markets Limited            Société Générale            UBS AG, London Branch         </p>
<b>Lead Manager</b>	Samba Capital & Investment Management Company
<b>Stabilising Manager</b>	Goldman Sachs Saudi Arabia

## KEY DATES AND SUBSCRIPTION PROCEDURES

**Table 4: Expected Offering timetable**

Expected Offering Timetable	Date
Bidding and Book-Building Period for Institutional Subscribers	A period of 18 days that will begin on 20/3/1441H (corresponding to 17 November 2019G) and will close at the end of 7/4/1441H (corresponding to 4 December 2019G)
Submission of Retail Subscription Forms and Retail Offering Period	A period of ten days that will begin on 20/3/1441H (corresponding to 17 November 2019G) and will close at the end of 1/4/1441H (corresponding to 28 November 2019G)
Deadline for submission of Bid Forms by Institutional Subscribers	7/4/1441H (corresponding to 4 December 2019G)
Deadline for submission of Retail Subscription Forms and payment of the subscription monies for Individual Investors	1/4/1441H (corresponding to 28 November 2019G)
Announcement of Final Offer Price	8/4/1441H (corresponding to 5 December 2019G)
Announcement of final allocations of Offer Shares to Institutional Subscribers and Individual Investors	8/4/1441H (corresponding to 5 December 2019G)
Deadline for payment of the subscription funds by Institutional Subscribers	11/4/1441H (corresponding to 8 December 2019G)
Refund of excess subscription monies (if any) to Individual Investors	15/4/1441H (corresponding to 12 December 2019G)
Expected trading commencement date for the Shares	Trading of the Shares is expected to commence after all relevant legal requirements and procedures have been completed. An announcement of the commencement of trading of the Shares will be made on Tadawul's website ( <a href="http://www.tadawul.com.sa">www.tadawul.com.sa</a> ).

Source: Company.

The above timetable and dates therein are indicative. Actual dates will be communicated through announcements appearing in local and international media outlets newspapers, as well as on the websites of Tadawul ([www.tadawul.com.sa](http://www.tadawul.com.sa)), the Joint Financial Advisors and the Company ([www.saudiamco.com](http://www.saudiamco.com)).

### How to Apply for the Offering:

Subscription to the Offer Shares in the Offering is restricted to investors in the following two tranches:

**Tranche (A) (Institutional Subscribers):** institutional subscribers eligible to participate in the book-building process as specified under the Book-Building Instructions (for further details, see Sections 1 (*Definitions and Abbreviations*) and 18 (*Subscription Terms and Conditions*); and

**Tranche (B) (Individual Investors):** individual investors comprising Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted.

### Institutional Subscribers

The Joint Bookrunners shall, after the approval of the CMA, offer the Offer Shares to the Institutional Subscribers during the Book-Building Period. Subscriptions by the Institutional Subscribers shall commence during the Book-



Building Period, according to the terms and conditions detailed in the Institutional Investors Subscription Form, which can be obtained from the Joint Bookrunners. A signed Institutional Investors Subscription Form must be submitted to the Joint Bookrunners. Institutional Subscribers registered in the Kingdom must submit to the Institutional Joint Bookrunners a completed and signed Bid Form during the Book-Building Period to be made available by the Joint Financial Advisors and Institutional Joint Bookrunners. Institutional Subscribers not registered in the Kingdom may apply for subscription with the Joint Bookrunners by submitting their Bid/Subscription Orders to the Joint Bookrunners telephonically or electronically, without the need to complete and sign a Bid Form. After the announcement of the final allocation of Offer Shares to Institutional Subscribers, such subscribers must settle the value of the Offer Shares allocated to them within the deadlines set out in Table 4 (*Expected Offering Timetable*).

### **Individual Investors**

Retail Subscription Forms for Individual Investors will be available during the Offering Period at all Receiving Entities branches. Individual Investors who have recently participated in previous initial public offerings in the Kingdom can also subscribe through the internet, telephone banking or ATMs of any of the Receiving Entities offering any or all such services to its customers, provided that the following requirements are satisfied:

- the Individual Investor must have a bank account at the Receiving Entity which offers such services; and
- there have been no changes in the personal information or data of the Individual Investor (by way of exclusion or addition of any member of his family) since such person last participated in an initial public offering.

Each Individual Investor is required to fill out the Retail Subscription Form according to the instructions mentioned in Section 18 (*Subscription Terms and Conditions*). Each Individual Investor must complete all the relevant sections in the Retail Subscription Form. Saudi Aramco reserves the right to reject any Retail Subscription Form, in part or in whole, if any of the subscription terms and conditions are not met. If two subscriptions are submitted, the second shall be deemed void and only the first one shall be taken into consideration. The Retail Subscription Form cannot be amended or withdrawn once submitted. Furthermore, the Retail Subscription Form shall, upon submission, be considered to be a legally binding offer by the relevant Subscriber to the Selling Shareholder.

Excess subscription monies, if any, will be refunded to the primary Individual Investor's account held with the Receiving Entity from which the subscription value has been debited in the first place, without withholding any charge or commission by the relevant Receiving Entity. Excess subscription monies shall not be refunded in cash or to third party accounts.

Each Individual Investor will be required to specify in the Retail Subscription Form the number of Offer Shares to which such Individual Investor is willing to subscribe at the Retail Subscription Price and whether, if the Final Offer Price is lower than the Retail Subscription Price, such person elects (1) to have any surplus subscription amount resulting from the difference between the Retail Subscription Price and the Final Offer Price refunded in cash by crediting the account of such Individual Investor or (2) to be considered for an allotment of additional Offer Shares. To the extent an Individual Investor elects to be considered for an allotment of additional Offer Shares, but such allotment is not made by the Company and the Selling Shareholder, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, the remaining surplus subscription amount will be refunded in cash by crediting the account of such Individual Investor. Individual Investors must specify their choice in the Retail Subscription Form, including, in the case of fractional Shares, an amount with respect to such fractional Shares (i.e. if there are no additional Shares allocated, the remaining surplus subscription amount will be refunded by crediting the account of such Individual Investors).

For further details regarding subscription by Institutional Subscribers and Individual Investors, see Section 18 (*Subscription Terms and Conditions*).

## SUMMARY OF KEY INFORMATION

*This overview does not contain all of the information that is important to making a decision to invest in the Shares. Any decision to invest in the Shares should be based on consideration of this Prospectus as a whole. In particular, it is important to carefully consider the “Important Notice” on page i and Section 2 (Risk Factors) prior to making an investment decision with respect to the Shares.*

*All natural resources within the Kingdom, including hydrocarbons, are owned by the Kingdom. Through the Concession, the Government has granted the Company the exclusive right to explore, develop and produce the Kingdom’s hydrocarbon resources, except in the Excluded Areas. See Section 4.14.2 (The Concession). Unless otherwise indicated, any reference in this Prospectus to reserves of crude oil and condensate, natural gas or other hydrocarbons are reserves owned by the Kingdom that the Company has the right to operate and develop through the Concession and excludes reserves other entities have the right to develop, including AGOC, the Company’s wholly owned subsidiary, which operates in the partitioned territory between the Kingdom and the State of Kuwait.*

### **Overview of the Company and its Business Activities**

The Company is the world’s largest integrated oil and gas company. In the first six months of 2019G, the Company produced 13.2 million barrels per day of oil equivalent, including 10.0 million barrels per day of crude oil (including blended condensate). In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate). The Company’s crude oil production accounted for approximately one in every eight barrels of crude oil produced globally from 2016G to 2018G. As at 31 December 2018G, the Company’s proved liquids reserves were approximately five times larger than the combined proved liquids reserves of the Five Major IOCs. In addition, the Company’s net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with the most recently available third party refining capacity data as provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day and net refining capacity of 3.1 million barrels per day. The Company is focussed on maintaining its pre-eminent upstream position and continued strategic integration of its downstream operations to secure demand for its crude oil and to capture value across the hydrocarbon chain.

The Company’s heritage dates back to 1933G as an upstream venture founded by predecessors to Chevron and ExxonMobil, two of today’s Five Major IOCs. The Company’s upstream operations are based in the Kingdom and it also operates a global downstream business. Its primary operating segments are the upstream segment and the downstream segment, which are supported by the corporate segment.

For the six months ended 30 June 2019G, the Company generated SAR 196.7 billion (\$52.5 billion) in net cash provided by operating activities and SAR 142.4 billion (\$38.0 billion) of Free Cash Flow. For the year ended 31 December 2018G, the Company generated SAR 453.7 billion (\$121.0 billion) in net cash provided by operating activities and SAR 321.9 billion (\$85.8 billion) of Free Cash Flow. The Company operates within a conservative financial framework, which led to a Gearing ratio of 2.4% as at 30 June 2019G and (8.6)% as at 31 December 2018G (with a net cash position as at that date). Free Cash Flow and Gearing are non-IFRS financial measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see Sections 7.4.3 (*Free Cash Flow*) and 7.4.4 (*Gearing*).

### ***Upstream***

The Company is the world’s leading producer of crude oil and condensate. In the first six months of 2019G, the Company produced 13.2 million barrels per day of oil equivalent, including 10.0 million barrels per day of crude oil (including blended condensate). In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate), an additional 0.2 million barrels per day of unblended condensate, 1.1 million barrels per day of NGLs, 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. The Company manages the Kingdom’s unique reserves and resources base to optimise production and maximise long-term value pursuant to the Hydrocarbons Law, which mandates that the Company’s hydrocarbon operations promote long-term productivity of the Kingdom’s reservoirs and support the prudent stewardship of its hydrocarbon resources.

As at 31 December 2018G, the Kingdom’s reserves in the fields the Company operates consisted of 336.2 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.1 billion barrels of NGLs and 233.8 trillion standard cubic feet of natural gas.

Under the Original Concession, which was in effect until 24 December 2017G, the Company's rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Accordingly, until such date, the Kingdom's reserves in the fields the Company operated were the same as the Company's reserves. Effective 24 December 2017G, the Concession limited the Company's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, to an initial period of 40 years, which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. In addition, the Concession may be extended for an additional 40 years beyond the prior 60 year period subject to the Company and the Government agreeing on the terms of the extension. See Section 13.5.1 (*The Concession*). The provision of a specified term in the Concession impacts the calculation of the Company's reserves as compared to the Kingdom's reserves in the fields the Company operates. The Concession also requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG through domestic production or imports.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2018G, the Company's reserves were 256.9 billion barrels of oil equivalent. The Company's oil equivalent reserves were sufficient for proved reserves life of 52 years, which was significantly longer than the 9 to 17 year proved reserves life of any of the Five Major IOCs based on publicly available information, consisting of 201.4 billion barrels of crude oil and condensate, 25.4 billion barrels of NGLs and 185.7 trillion standard cubic feet of natural gas. As at 31 December 2018G, the Company's portfolio included 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters.

Based on a comparison of production cost data of the Five Major IOCs and other leading oil and gas companies, the Company is uniquely positioned as the lowest cost producer globally as at 31 December 2018G. The Company's average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced in 2018G, following the Industry Consultant's methodology. In addition, the Company's upstream capital expenditures for the year ended 31 December 2018G averaged SAR 17.7 (\$4.7) per barrel of oil equivalent produced, also following the Industry Consultant's methodology. The Company's low cost position is due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which the Company's reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low depletion rate operational model and its scaled application of technology. Given the quality of most of the Company's reservoirs and its operational model, it is possible to achieve high recovery factors while maintaining relatively low water cut levels for long periods of time.

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires the Company to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law. MSC refers to the average maximum number of barrels per day of crude oil that can be produced for one year during any future planning period, after taking into account all planned capital expenditures and maintenance, repair and operating costs, and after being given three months to make operational adjustments. As at 30 June 2019G, the Company's MSC was 12.0 million barrels of crude oil per day. The spare capacity afforded by maintaining MSC enables the Company to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. The Company also uses this spare capacity as an alternative supply option in case of unplanned production outages at any field and to maintain its production levels during routine field maintenance. The Company generated revenues by utilising the spare capacity provided by MSC of SAR 133.0 billion (\$35.5 billion) from 2013G to 2018G. This additional revenue stems from periods where actual monthly production (made possible by MSC) was in excess of the average planned production level.

The Company's gas portfolio is rich in liquids, demonstrated by the production of 0.2 million barrels per day of unblended condensate and 1.1 million barrels per day of NGLs in 2018G. The Company is the exclusive supplier of natural gas in the Kingdom, the country with the seventh highest natural gas demand in the world in 2018G according to the Industry Consultant. The Company also supplied 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane to the Kingdom in 2018G. It owns and operates the MGS, which is an extensive network of pipelines that connects the Company's key gas production and processing sites throughout the Kingdom. The Company expects to further expand its gas reserves through new field discoveries, new reservoir additions in existing fields and delineation and reassessment of existing reservoirs and fields.

### ***Downstream***

The Company has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and

power generation. The Company's net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with the most recently available third party refining capacity data as provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day and net refining capacity of 3.1 million barrels per day. The strategic integration of the Company's upstream and downstream segments provides an opportunity for the Company to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. The downstream segment's other business activities include base oils, lubricants and retail operations.

The Company's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2018G. The Company's upstream business produces all the crude oil supplied to and processed by the Company's wholly owned and affiliated refineries in the Kingdom and the majority of crude oil used by its international wholly owned and affiliated refineries. In 2018G, the Company's weighted average ownership percentage in the Company's international refineries was 58%, but it supplied an average of 68% of the crude oil used by those refineries. This crude placement provides significant benefits to the Company's downstream operations, including a secure and reliable supply of high-quality crude oil, which helps to ensure a secure and reliable supply of refined products to its downstream customers.

The Company's refining operations in the Kingdom, including its domestic affiliates, accounted for 62% of its net refining capacity in 2018G. Together with the local distribution system, this provides the Company unique access to the large domestic marketplace to which it is the sole supplier. In addition to its domestic focus, the Company is focussing its downstream investments in areas of high-growth, including China, India and Southeast Asia, material demand centres, such as the United States, and countries that rely on importing crude oil, such as Japan and South Korea.

The Company also has an integrated petrochemicals business within its downstream segment, which enables it to capture incremental margin in the hydrocarbon value chain. The Company's chemicals business spans from production of basic chemicals such as aromatics, olefins and polyolefins to more complex products such as polyols, isocyanates and synthetic rubber. The Company's chemicals business continues to grow through capacity expansions in the Kingdom, increasing ownership positions in affiliates and new investments, including the proposed acquisition of the PIF's 70% equity interest in SABIC, which is currently expected to close in the first half of 2020G. Following the closing of the SABIC transaction, the Company's chemicals business will operate in over 50 countries and produce a range of chemicals, including olefins, ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. As at 31 December 2018G, the Company had a net and gross chemical production capacity of 16.7 million and 33.2 million tonnes per year, respectively. Upon closing of the SABIC transaction, the Company expects to have the largest net production capacity for ethylene and be amongst the top four companies by net production capacity for polyethylene, monoethylene glycol and polypropylene, according to the Industry Consultant.

The Company continues to evaluate a number of additional large-scale investment opportunities in high-growth geographies globally, as well as organic initiatives, to improve the operational and financial performance of its downstream assets, including capacity increases, asset upgrades, improvements in product yield and capturing additional petrochemical integration.

The Company's downstream segment includes its crude oil and product sales, distribution and trading platforms. These platforms support the Company's upstream and downstream operations by enabling it to optimise crude sales and product placement through its significant infrastructure network of pipelines and terminals and access to shipping and logistics resources. The Company also maintains flexibility to respond to fluctuations in demand through its five crude grades and MSC. This flexibility contributes to the Company's ability to meet its customer's needs and its reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.9% of its delivery obligations on time in 2017G, 2018G and the first six months of 2019G, respectively.

### ***Corporate***

The Company's corporate segment primarily supports the activities of its upstream and downstream segments. The corporate segment includes technical services that are essential to the success of the Company's core activities, as well as human resources, finance, corporate affairs and legal.

## **Proposed Acquisitions**

### ***Acquisition of 70% Equity Interest in SABIC***

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. SABIC operates in over 50 countries and produces a range of chemicals, including olefins, ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. According to its public filings, in 2018G, SABIC's total production was 75.3 million tonnes, including 61.8 million tonnes of petrochemical and specialty products. As at and for the year ended 31 December 2018G, SABIC's total assets were SAR 320 billion, net income was SAR 32 billion and total revenue was SAR 169 billion. As at and for the six months ended 30 June 2019G, SABIC's total assets were SAR 320 billion, net income was SAR 8.3 billion and total revenue was SAR 73 billion.

The Company believes that purchasing a majority interest in SABIC will advance its strategy to increase the proportion of petrochemicals production in its downstream portfolio and support the Company's downstream growth ambitions. In addition, the Company believes that the acquisition will facilitate the application of SABIC's expertise in the chemicals industry to the Company's existing and future integrated downstream facilities. Following the proposed acquisition, SABIC is expected to remain a listed company on Tadawul. On 6 October 2019G, the Company and the PIF agreed to amend the payment terms of the 27 March 2019G purchase agreement. Based on the amended purchase agreement, the purchase price for the acquisition will be paid on the closing date in the form of a cash payment equal to 36% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 64% of the purchase price. Closing of the acquisition is subject to customary closing conditions and is currently expected to occur in the first half of 2020G. For a summary of the purchase agreement to acquire the PIF's 70% equity interest in SABIC and the payment terms thereof, see Section 4.2 (*Proposed Acquisitions*).

### ***Other Acquisitions***

On 15 April 2019G, the Company entered into a purchase agreement to acquire a 17% equity interest in Hyundai Oilbank from Hyundai Heavy Industries Holdings, for SAR 4.7 billion with an option to acquire an additional 2.9% equity interest. Hyundai Oilbank is a private oil refining company in South Korea. The Daesan Complex, where Hyundai Oilbank's major facilities are located, is a fully integrated refining plant with a processing capacity of 650,000 barrels of crude oil per day. The transaction, which is subject to customary closing conditions, is expected to close by the end of the first half of 2020G.

The Company has recently entered into non-binding agreements regarding the expansion of its downstream business in Asia, including entering into a non-binding letter of intent with Reliance Industries Limited on 12 August 2019G to purchase a 20% stake in its oil to chemicals division.

## **Recent Developments**

### ***Fiscal Regime Changes***

The Government has made the following changes to the fiscal regime under which the Company operates:

- the Government adopted regulations regarding the manner in which the Company is compensated for gas sold domestically in the Kingdom such that the Company will be compensated by the Government for revenue directly forgone as a consequence of domestically supplying Regulated Gas Products in the event that Government-mandated prices do not meet the relevant price determined to achieve the rate of return approved by the Government for the Company's gas projects (effective as at 17 September 2019G);
- the Company and the Government executed an amendment to the Concession, which (effective as at 1 January 2020G):
  - (1) reduces the royalty rate on crude oil and condensate production to 15% (from 20%) on Brent prices up to \$70 per barrel;
  - (2) increases the marginal royalty rate to 45% (from 40%) on Brent prices above \$70 per barrel up to \$100 per barrel; and
  - (3) increases the marginal royalty rate to 80% (from 50%) on Brent prices above \$100 per barrel;
- the Government will compensate the Company for carrying costs associated with maintaining Government-mandated petroleum product reserves in an amount of \$41.2 million per month (effective as at 1 January 2020G);

- the Government extended the liquids price equalisation mechanism to compensate the Company for revenue directly forgone as a result of the Company's compliance with the Government mandates related to domestic sales of LPGs and certain other products (effective as at 1 January 2020G);
- the Government determined that the tax rate applicable to the Company's downstream business will be reduced from the 50% to 85% multi-tiered structure of income tax applicable to domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Income Tax Law, on the condition that the Company consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024G (effective as at 1 January 2020G); and
- the period for which the Company will not be obligated to pay royalties on condensate production was extended for an additional ten years after the current five-year period ending on 1 January 2023G, and may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development do not warrant such an extension (effective as at 1 January 2023G).

For further details on these changes to the fiscal regime, see Section 7.3.6 (*Fiscal Regime Changes*). The Company estimates that, had each of these fiscal regime changes been in effect for the six months ended 30 June 2019G, the Company's cash flow for such period would have been approximately \$4.5 billion higher.

#### *Recent Zakat Change*

Pursuant to Royal Order No. 16712, dated 11/3/1441H (corresponding to 8 November 2019G), the zakat obligations resulting from investments in the Shares listed on the Exchange will be settled as described in the following sentence. The Zakat amounts resulting from such investments will be calculated and deducted from tax payments by the Company and transferred to the zakat account at the Ministry of Finance for transfer eligible zakat recipients in accordance with applicable law.

#### *Recent Incidents*

In May 2019G, the East-West pipeline was attacked by an unmanned aerial vehicle carrying explosives. The pipeline was briefly shut down as a result of the attack.

On 17 August 2019G, the Company's Shaybah NGL facility was attacked by five unmanned aerial vehicles, which resulted in fires and damage to the processing and cogeneration infrastructure at the facility. The attacks triggered the Company's emergency response and business continuity protocols to halt feedstock flows, depressurise and shut down equipment, assess damage sustained and resume operations safely. No injuries or fatalities were reported during the incident. Restoration of plant operations on one NGL train was completed within two weeks after the attack and other repairs are ongoing. The Company has taken a number of steps to mitigate the impact of the shutdown on its customers, including providing ethane customers with propane as a substitute and adjusting C2+ NGL distribution. The Company's preliminary estimate of the costs to repair the Shaybah NGL facility is approximately \$28 million and it does not expect the revenues lost as a result of the attacks to be material.

On 14 September 2019G, the Company's Abqaiq facility and Khurais processing facility were attacked, which resulted in explosions, fires and significant damage to equipment at each facility. The attacks triggered the Company's emergency response protocols and fires were extinguished within approximately seven hours of the first impact. No injuries or fatalities were reported during the incident at either the Abqaiq facility or the Khurais processing facility. As a result of these attacks, the Company's crude oil production was temporarily reduced by approximately 54%. Since the attacks, the Company has taken a number of actions to minimise the impact on its customers, including tapping into the Company's crude oil inventories located outside of the Kingdom, swapping grades of deliveries and curtailing NGL deliveries to some customers and increasing production from other fields. Finally, in light of the gas production capacity reduction, certain power plants in the Kingdom partially switched feedstocks to crude burning. As at 25 September 2019G, the Company's production recovered to the same level as prior to the 14 September 2019G attacks and the Company continues to work towards fully restoring full plant operations safely at Abqaiq and Khurais. The Company does not expect the impact of these attacks to have a material impact on its business, financial condition or results of operations. For more information, see Section 2.2.5 (*Risks related to terrorism and armed conflict*).

#### *Recent Acquisitions*

On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company. The refinery has a gross refining capacity of 305,000 barrels of crude oil per day.

Additionally, on 31 October 2019G, Motiva acquired a 100% ownership interest in Flint Hills Resources Port Arthur, LLC, which operates a 634,000 tonne per year cracker, capable of processing ethane, propane and butane, in Port Arthur, Texas.

#### *Dividends*

On 1 November 2019G, the Company declared an ordinary dividend of \$13.4 billion with respect to the fiscal quarter ended 30 September 2019G. In addition, the Company will declare an interim (ordinary) dividend of a maximum of \$9.5 billion, after obtaining the necessary approvals from the Board, prior to the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors. These dividends will be paid to the Government (in its capacity as the sole shareholder in the Company) and investors in the Offer Shares will not be entitled to any portion of these dividends regardless of when they are paid, which may be prior to, or after, the date of such allocation. However, if the amount of the declared interim (ordinary) dividend exceeds \$9.5 billion, then the record date for the portion of such dividends that exceeds \$9.5 billion will be the first date on which the Shares are traded on the Exchange and investors in the Offer Shares on such date will be entitled to their pro rata portion of such excess.

Furthermore, subject to Sections 8.1 (*General*) and 8.2 (*Dividend Distribution Policy*), the Company will declare an interim (ordinary) dividend of \$3.9 billion with respect to the period from (and including) the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors through 31 December 2019G, which will be paid from the Company's available cash. The record date for holders of Shares (including holders of Offer Shares allocated in this Offering) entitled to their pro rata portion of such dividend will be determined at the time the dividend is declared. Only holders of Shares (including holders of Offer Shares allocated in this Offering) on the record date will be entitled to a portion of such dividend. If the amount of such declared interim (ordinary) dividend exceeds \$3.9 billion, investors in the Offer Shares on the applicable record date will be entitled to their pro rata portion of the full amount of such dividends, including any excess over \$3.9 billion.

#### **Corporate History and Evolution**

On 29 May 1933G, the Government granted a concession to Socal giving it the right to explore for oil within the Kingdom's borders. Later that year, Socal incorporated CASOC as a subsidiary to manage the concession. Texaco acquired a 50% interest in CASOC in 1936G. CASOC's first commercial success came in 1938G at a drill site in Dhahran, which quickly began producing more than 1,500 barrels of crude oil per day. In 1944G, CASOC was renamed Arabian American Oil Company. In 1948G, Standard Oil Company of New Jersey, which later became Exxon, purchased 30% of Arabian American Oil Company, and Socony-Vacuum Oil Company, which later became Mobil, purchased 10% to help provide market outlets and capital for the Kingdom's hydrocarbon reserves. In 1952G, Arabian American Oil Company's headquarters moved from New York to Dhahran, and in 1973G, the Government acquired an initial 25% participating interest in the concession, which increased to 60% in the following year. Arabian American Oil Company continued to grow and had become the world's leading oil producer in terms of volume produced in a single year by 1976G. Between 1980G and 1981G, the Government increased its participation interest in the company's crude oil concession rights, production and facilities to 100%. During the 1980Gs, Arabian American Oil Company increased its production volumes and expanded its infrastructure with the construction of the East-West pipeline, a 1,200 kilometre pipeline dedicated to transporting crude oil from Dhahran to Yanbu' on the Red Sea. In the 1980Gs and 1990Gs, the company established refining and marketing joint ventures in strategic geographies around the globe in order to further expand its market and product offerings.

In 1988G, Saudi Arabian Oil Company, also known as Saudi Aramco, was established as a company with limited liability by virtue of Royal Decree No. M/8, dated 4/4/1409H (corresponding to 13 November 1988G), to assume the privileges and rights of Arabian American Oil Company.

In 1993G, the Company assumed the assets and operations of Saudi Arabian Marketing and Refining Company (also known as Samarec), a Government-owned in-Kingdom refining and international product marketing organisation, which included joint ventures with Shell (SASREF) and Mobil, which later became ExxonMobil (SAMREF). Subsequently, the Company entered into additional ventures with: Dow (Sadara); Lanxess (ARLANXEO); Petronas (PRefChem); Sinopec (YASREF); Sumitomo (Petro Rabigh); Total (SATORP); Shell (Motiva); and Mobil (Luberef). The Company acquired full ownership of Motiva (formerly a joint venture with Shell) on 1 May 2017G and ARLANXEO (formerly an associate in partnership with Lanxess) on 31 December 2018G. The Company's historical association with major hydrocarbons companies has provided it with dedicated outlets for its crude oil, technical expertise and operational and financial discipline.

## **Vision, Mission and Strategy**

### ***Vision***

The Company's vision is to be the world's pre-eminent integrated energy and chemicals company, operating in a safe, sustainable and reliable manner.

### ***Mission***

The Company strives to provide its shareholders with resilient value creation through crude oil price cycles by maintaining its pre-eminence in oil and gas production, capturing additional value across the hydrocarbon value chain and profitably growing its portfolio.

### ***Strategy***

The Company's strategy aims to reinforce its competitive positions across its upstream and downstream operations.

*Maintain its position as the world's leading crude oil producer by production volume and the lowest cost producer, while providing reliable, low carbon intensity crude oil supply to customers*

The Company intends to maintain its position as the world's leading crude oil producer by production volume. Its reserves, operational capabilities and spare capacity allow it to increase production in response to demand. The Company maintains its desired level of crude oil production by balancing production between maturing areas and newer production sources, tapping into new reservoirs when required to optimise the depletion rate of its fields. It also maintains its low cost position due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which the Company's reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low depletion rate operational model and its scaled application of technology. For the year ended 31 December 2018G, the Company's average upstream lifting costs and upstream capital expenditures were SAR 10.6 (\$2.8) per barrel of oil equivalent produced and SAR 17.7 (\$4.7) per barrel of oil equivalent produced, respectively, which was lower than that of each of the Five Major IOCs based on a comparison with lifting cost and upstream capital expenditure data provided by the Industry Consultant.

In addition, the Company seeks to maintain its position as one of the world's most reliable crude oil suppliers. The spare capacity afforded by maintaining MSC provides operational flexibility to respond rapidly to changes in global crude oil supply and demand. Though the Company has a robust field maintenance philosophy that emphasises the reliability of its upstream operations, MSC also provides an alternative supply option in the event of unplanned production outages at any field. Moreover, the Company utilises term agreements for selling crude oil to major consumers globally. These agreements provide supply predictability to customers by standardising price and delivery terms to major regional demand centres. The Company continues to invest in and develop a sophisticated and extensive crude oil distribution and dispatch system which maintains the Company's supply reliability.

Moreover, the Company seeks to preserve the low carbon intensity of its crude oil production, which places it among the world's least carbon intense sources of crude oil.

*Capture value from further strategic integration and diversification of its operations*

The Company intends to continue the strategic integration of its upstream and downstream businesses to facilitate the placement of the Company's crude oil in larger offtake volumes through a captive system of domestic and international wholly owned and affiliated refineries, allow it to capture additional value across the hydrocarbon chain, expand its sources of earnings and provide resilience to oil price volatility. For example, the proposed acquisition of a 70% equity interest in SABIC supports the significant expansion of the Company's downstream activities, particularly in its chemicals business, and provides additional opportunities for the Company to supply mixed feedstock of crude oil, refinery products and gas to manufacture petrochemicals products. In addition, the integration of the Company's upstream and downstream segments provides a unique opportunity for the Company to secure crude oil demand by selling to refineries designed specifically to economically process Arabian crude oil. Furthermore, the Company intends to enhance its domestic and global marketing businesses to support the position of its upstream business in key, high-growth geographies, including China, India and Southeast Asia, which are integral to the Company's existing business and future expansion strategy. Moreover, the Company intends to maintain its presence in key large countries, such as the United States, and in countries that rely on importing crude oil, such as Japan and South Korea.



### *Expand gas activities in the Kingdom and internationally*

The Company plans to expand its gas business to meet large and growing domestic demand for low-cost clean energy by increasing production and investing in additional infrastructure. This demand is driven by power generation, water desalination, petrochemical production and other industrial consumption in the Kingdom. The Company's gas production also yields NGLs (including ethane) and condensate, which supplement its crude oil production and provide feedstock to the refining and petrochemical industries. Furthermore, the Company seeks over time to develop an integrated global gas portfolio and is pursuing investment and joint venture opportunities outside the Kingdom in natural gas and LNG projects.

### *Expand global recognition of the Company's brands*

The Company intends to expand global recognition of its brands in the energy sector. One aspect of this strategy is to introduce its brands to existing domestic and international marketing businesses, including at retail service stations, and further develop its petrochemicals and base oil brands. In addition, as new marketing activities are added to its business portfolio, the Company intends to use its own brands and thereby build recognition of its position as a leader in the global energy sector.

### *Efficiently allocate capital and maintain a prudent and flexible balance sheet*

The Company has a comprehensive and disciplined internal approval process for capital expenditures, new projects and debt incurrence. It analyses future projects based on strategic, operational, commercial and financial targets. The Company's unique reserves and resources base, operational flexibility, field management and strong cash flow generation serve as a foundation for its low Gearing and flexibility to allocate capital. As at 31 December 2018G and 30 June 2019G, the Company had a Gearing ratio of (8.6)% and 2.4%, respectively. The Company targets a low Gearing ratio of 5% to 15%. Gearing is a non-IFRS financial measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see Section 7.4.4 (*Gearing*).

### *Deliver sustainable and growing dividends through crude oil price cycles*

The Company is committed to delivering sustainable and growing dividends to its shareholders through crude oil price cycles. Subject to the Board's discretion after consideration of a number of factors, the Board intends to declare aggregate ordinary cash dividends of at least \$75.0 billion with respect to calendar year 2020G, in addition to any potential special dividends. In addition, Royal Order No. A/42, dated 26/1/1441H (corresponding to 25 September 2019G) provides that, to the extent that the Board determines that the amount of any quarterly cash dividend declared with respect to calendar years 2020G through 2024G would have been less than \$0.09375 per share (based on 200,000,000,000 Shares outstanding) but for the Government forgoing its rights to such dividend as follows, the Government will forgo its right to receive the portion of cash dividends on its Shares equal to the amount necessary to enable the Company to first pay the minimum quarterly cash dividend amount described above to holders of Shares other than the Government. The remaining amount of the declared dividend as determined by the Board in its discretion will be paid to the Government. See Section 8 (*Dividend Distribution Policy and Dividends Framework*).

The Company's average upstream lifting costs and upstream capital expenditures per barrel of oil equivalent produced, which in 2018G were lower than each of the Five Major IOCs, position the Company to generate significant amounts of cash flow during periods of relatively high crude oil prices, while enabling it to maintain positive cash flow during periods of relatively low prices. However, there can be no assurance that the Company will pay dividends or the level of any such dividends. See Section 2.3.12 (*Risks related to payment of dividends on the Shares*).

### *Operate sustainably by leveraging technology and innovation*

The Company's climate change strategy aims to grow its business sustainably by leveraging technology and innovation to lower its climate impact. The Company intends to maintain its position as a leader in Scope 1 upstream carbon intensity, with one of the lowest carbon footprints per unit of hydrocarbons produced. It is also pursuing a wide range of initiatives to further lower its carbon intensity. For example, the Company's natural gas programme is increasing the percentage of gas used to meet the Kingdom's energy needs. The Company is also collaborating with other major companies to share best practices and devise common solutions to climate change, including through participation in the Oil and Gas Climate Initiative forum.

## **Competitive Strengths**

### ***Upstream Competitive Strengths***

- Unrivalled scale of crude oil and condensate production and conventional proved reserves
- Long reserves life, with long-term track record of low-cost reserves replacement
- Unique ability to capture value through active management of the world's largest conventional hydrocarbons reserves base
- Unique operational flexibility to respond to changes in supply and demand
- Multiple crude grades and global crude oil delivery points
- Extensive high-quality gas reserves with exclusive access to the large and growing domestic marketplace
- Crude oil extraction with a low average carbon intensity
- Lowest lifting costs and capital expenditures per barrel of oil equivalent

### ***Downstream Competitive Strengths***

- Ability to monetise upstream production into a high-quality external customer base and through a captive downstream system, with a strong track record of supply reliability
- Largest customer for the Company's upstream production
- Fourth largest integrated refiner in the world on a net refining capacity basis, supplying high-value products to the Kingdom and internationally in large and high growth markets
- Refining scale and complexity and enhanced integration
- Expected to become a major petrochemicals producer globally
- World class partners

### ***Company Competitive Strengths***

- Higher operating cash flow, Free Cash Flow, EBIT, EBITDA and ROACE than each of the Five Major IOCs
- Lower Gearing than each of the Five Major IOCs
- Ability to execute some of the world's largest upstream and downstream capital projects

## SUMMARY OF INDUSTRY OVERVIEW

- **Global demand for crude oil is expected to continue growing, with global GDP growth being a key driver.** Real global GDP is expected to grow at a CAGR of 2.9% from 2017G to 2030G, after growing at a CAGR of 3.2% from 2009G to 2018G. Future growth is expected to be led primarily by non-OECD Asia Pacific, with an anticipated real GDP growth at a CAGR of 5.2% from 2018G to 2030G. Global crude oil demand is expected to grow at a CAGR of 0.8% from 2018G to 2030G. Growth in demand from non-OECD Asia Pacific and other developing countries is expected to help mitigate any reduction in demand for crude oil caused by the increasing availability of alternative energy sources, greater energy efficiency and the emergence of new technologies in energy consumer markets, such as electric vehicles.
- **Global demand for refined products and chemicals, including ethylene, is expected to grow.** Global demand for refined products is expected to increase at a CAGR of 0.8% from 2018G to 2030G, driven by an increase in demand in Africa, the Middle East and Asia Pacific. Between 2018G and 2030G, global demand for ethylene is expected to grow at a CAGR of 3.3%, primarily due to an anticipated growth in demand from China and North America.
- **In-Kingdom demand for natural gas is expected to grow significantly.** The Kingdom's demand for natural gas is expected to grow at a CAGR of 3.6% from 2017G to 2030G, primarily due to an increase in demand from the power generation and the refining and industrial sectors.

## SUMMARY OF FINANCIAL INFORMATION

The financial information of the Company set forth below as at 31 December 2016G, 2017G and 2018G and for the years then ended and as at 30 June 2019G and for the six months ended 30 June 2018G and 2019G has been derived without material adjustment from, should be read in conjunction with and is qualified in its entirety by the Financial Statements contained elsewhere in this Prospectus.

Prospective investors should read the selected financial information in conjunction with the information presented in Sections 2 (Risk Factors) and 7 (Management's Discussion and Analysis of Financial Position and Results of Operations) and the Financial Statements and other financial data included elsewhere in this Prospectus.

**Table 5: Consolidated Statement of Income Data**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Revenue <sup>(1)</sup> . . . . .	504,596	835,983 <sup>(2)</sup>	1,182,137	315,236	557,870	550,720	146,859
Other income related to sales <sup>(3)</sup> . . . . .	—	150,176	152,641	40,704	70,916	63,836	17,023
<b>Revenue and other income related to sales . . .</b>	<b>504,596</b>	<b>986,159<sup>(2)</sup></b>	<b>1,334,778</b>	<b>355,940</b>	<b>628,786</b>	<b>614,556</b>	<b>163,882</b>
Production royalties and excise and other taxes <sup>(1)</sup> . . . . .	—	(136,393) <sup>(2)</sup>	(208,505)	(55,601)	(95,827)	(94,158)	(25,109)
Purchases . . . . .	(53,231)	(120,398) <sup>(4)</sup>	(188,937)	(50,383)	(88,189)	(97,312)	(25,950)
Producing and manufacturing . . . . .	(48,369)	(64,045) <sup>(4)</sup>	(56,202)	(14,987)	(24,323)	(29,512) <sup>(5)</sup>	(7,870) <sup>(5)</sup>
Selling, administrative and general . . . . .	(37,051)	(29,606) <sup>(4)</sup>	(31,250)	(8,333)	(15,856)	(16,922) <sup>(5)</sup>	(4,512) <sup>(5)</sup>
Exploration . . . . .	(11,087)	(13,725)	(7,928)	(2,114)	(4,225)	(3,527)	(941)
Research and development . . . . .	(1,897)	(1,902)	(2,217)	(591)	(1,035)	(951)	(254)
Depreciation and amortisation . . . . .	(33,615)	(36,894)	(41,334)	(11,023)	(19,763)	(24,297) <sup>(5)</sup>	(6,479) <sup>(5)</sup>
Impairments <sup>(6)</sup> . . . . .	(13,646)	(281)	—	—	—	—	—
<b>Operating costs . . . . .</b>	<b>(198,896)</b>	<b>(403,244)<sup>(2)</sup></b>	<b>(536,373)</b>	<b>(143,032)</b>	<b>(249,218)</b>	<b>(266,679)</b>	<b>(71,115)</b>
Operating income . . . . .	305,700	582,915	798,405	212,908	379,568	347,877	92,767
Share of results from joint ventures and associates . . . . .	(979)	(956)	(1,415)	(377)	314	(1,432)	(382)
Finance and other income . . . . .	1,609	1,569	3,865	1,030	1,104	3,168	845
Finance costs . . . . .	(1,354)	(2,090)	(2,959)	(789)	(1,387)	(2,779) <sup>(5)</sup>	(741) <sup>(5)</sup>
Income before income taxes . . . . .	304,976	581,438	797,896	212,772	379,599	346,834	92,489
Income taxes <sup>(7)</sup> . . . . .	(255,255)	(296,819)	(381,378)	(101,701)	(180,779)	(170,963)	(45,590)
<b>Net income . . . . .</b>	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>198,820</b>	<b>175,871</b>	<b>46,899</b>
<b>Net income attributable to:</b>							
Shareholder's equity . . . . .	48,349	283,198	416,196	110,985	198,361	176,017	46,938
Non-controlling interests . . . . .	1,372	1,421	322	86	459	(146)	(39)
	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>198,820</b>	<b>175,871</b>	<b>46,899</b>

Source: Financial Statements.

- (1) Prior to 2017G, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017G, royalties attributable to the production of crude oil and condensate, natural gas and NGLs are accounted for as an expense, rather than a deduction from revenue. See Sections 4.14.2 (*The Concession*) and 7.6.5.2(b) (*Royalties*).
- (2) The Company adopted IFRS 15 on 1 January 2018G. As a result, in the preparation of its 2018G Financial Statements, the Company reclassified certain 2017G results that appear in the 2017G comparative column of the 2018G Financial Statements. See page F-18.
- (3) The Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. From 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for revenues directly forgone as a result of the Company's compliance with the Government mandates related to crude oil and certain refined products. See Section 7.3.6 (*Fiscal Regime Changes*).
- (4) Purchases, producing and manufacturing costs and selling, administrative and general costs for 2017G do not reflect the reclassification of SAR 1.4 billion of producing and manufacturing costs reclassified to selling, administrative and general expenses and SAR 5.7 billion of producing and manufacturing costs reclassified to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016G.
- (5) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.
- (6) The Company recognised an impairment of SAR 13,646 million for the year ended 31 December 2016G primarily related to the Jazan integrated petrochemical refinery under construction and two existing domestic refineries.
- (7) As at 1 January 2017G, the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50%, except that effective from 1 January 2018G, a 20% tax rate applies to Saudi Arabian Oil Company's taxable income related to certain natural gas activities. See Section 7.3.6 (*Fiscal Regime Changes*).

**Table 6: Selected Consolidated Balance Sheet Data**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Cash and cash equivalents	48,075	81,242	183,152	48,841	148,225	39,527
Property, plant and equipment	635,366	751,134	873,827	233,021	929,496 <sup>(1)</sup>	247,866 <sup>(1)</sup>
Total assets	940,703	1,102,553	1,346,168	358,978	1,424,431	379,848
Total borrowings	52,459	77,598	101,318	27,018	172,879	46,101
Total liabilities	205,357	276,239	317,733	84,729	400,304	106,748
Total equity	735,346	826,314	1,028,435	274,249	1,024,127	273,100

Source: Financial Statements.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

**Table 7: Selected Consolidated Statement of Cash Flows Data**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
<b>Net cash provided by/(used in):</b>							
Operating activities <sup>(1)</sup>	109,411	333,607	453,701	120,987	195,213	196,689	52,450
Investing activities	(116,900)	(118,629)	(131,205)	(34,988)	(58,522)	(97,279)	(25,941)
Financing activities	2,021	(181,811)	(220,586)	(58,823)	(122,507)	(134,337)	(35,823)

Source: Financial Statements.

(1) Includes settlement of income and other taxes starting in 2017G. See Note 23(a) to the 2018G Financial Statements.

**Table 8: Selected Non-IFRS Financial Measures**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Free Cash Flow	6,065	211,652	321,935	85,849	133,472	142,426	37,980
EBIT	305,497	582,349	798,015	212,804	379,990	346,899	92,506
EBITDA	352,758	619,524	839,349	223,826	399,753	371,196	98,985

Source: Financial Statements and Company.

	Year Ended 31 December				Twelve Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
ROACE	6.6%	33.8%	41.1%	41.1%	38.8%	36.0%	36.0%

Source: Financial Statements and Company.

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
Gearing	0.6%	(0.4)%	(8.6)%	(8.6)%	2.4%	2.4%

Source: Financial Statements and Company.

## SUMMARY OF RISK FACTORS

Before considering an investment in the Offer Shares, prospective investors are advised to carefully consider all the information contained in this Prospectus, particularly the risks stated below, which are described in detail in Section 2 (*Risk Factors*).

### **Risks Related to the Company's Operations**

- The Company's results of operations and cash flow are significantly impacted by international crude oil supply and demand and the price at which it is able to sell crude oil.
- The Company exports a substantial portion of its crude oil and refined products to customers in Asia, and adverse economic or political developments in Asia could impact the Company's results of operations.
- The Company operates in a highly competitive environment. Competitive pressure could have a material adverse impact on the price at which it sells crude oil and other products.
- Estimates of proved hydrocarbon reserves depend on significant interpretations, assumptions and judgments. Any significant deviation or changes in existing economic and operating conditions could affect the estimated quantity and value of the Company's proved reserves.
- The independent third party certification letter does not cover the entirety of the Kingdom's estimated reserves.
- The Company is subject to operational risks and hazards that may have a significant impact on its operations or result in significant liabilities and costs.
- The Company could be subject to losses from risks related to insufficient insurance.
- The Company's ability to achieve its strategic growth objectives depends on the successful delivery of current and future projects.
- The Company has been subject to litigation in the past and may be again in the future.
- The Company's historical results of operations may not be easily compared from year to year.
- The Company may not realise some or all of the expected benefits of recent or future acquisitions, including with respect to SABIC.
- The Company is exposed to risks related to operating in several countries.
- Violations of applicable sanctions and trade restrictions, as well as anti-bribery and anti-corruption laws, could adversely affect the Company.
- Increased concerns regarding the safe use of chemicals and plastics and their potential impact on the environment have resulted in more restrictive regulations and could lead to new regulations.
- The Company is dependent on Senior Management and key personnel.
- The Company's management team has limited experience managing a public company.
- The Company's operations are dependent on the reliability and security of its IT systems.

### **Risks Related to the Company's Industry and Regulatory Environment**

- The Government determines the Kingdom's maximum level of crude oil production and target MSC.
- The Kingdom's public finances are highly connected to the hydrocarbon industry.
- Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause the Company to incur costs or invest additional capital.
- Political and social instability and unrest and actual or potential armed conflicts in the MENA region and other areas may affect the Company's results of operations and financial position.
- Terrorism and armed conflict may materially and adversely affect the Company and the market price of the Shares.
- The Government may direct the Company to undertake projects or provide assistance for initiatives outside the Company's core business, which may not be consistent with the Company's immediate commercial objectives or profit maximisation.

- The Company operates in a regulated industry and its business may be affected by regulatory changes.
- The mechanism for equalisation compensation the Company receives from the Government in respect of domestic sales of certain hydrocarbons may be changed.
- The Company is required to consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries of the Company within a certain time period as a condition of the Government allowing the general corporate tax rate to apply to the Company's downstream business.
- The Company is required to obtain, maintain and renew governmental licences, permits and approvals in order to operate its businesses.
- The Company's operations are subject to extensive environmental protection, health and safety laws and regulations.
- The Company may be affected by international trade litigation, disputes or agreements.
- The Company's financial position and results of operations may be adversely affected if the Kingdom stops pegging the SAR to the U.S. Dollar.

### **Risks Related to the Offer Shares**

- An initial public offering in the Kingdom of this kind and size is unprecedented. Any disruption in trading of the Shares could impact their market price and delay the ability to conduct transactions.
- Closing of the Offering and Listing of the Offer Shares to trading on the Exchange could be delayed.
- The Offer Shares will not commence trading on the Exchange until the Offering is closed and the Offer Shares are admitted for listing on the Exchange.
- Non-Qualified Foreign Investors will not be able to directly hold Shares.
- The Exchange limits on share price movements of 10% or more per day will apply to the trading of the Shares.
- The inability of foreign investors to exchange SAR for other currencies could have a material adverse effect on demand for, and the trading price of, the Shares.
- There is currently no public market for the Shares, and there can be no assurance that an active and liquid market for the Shares will develop or be sustained after the Offering.
- The trading price of the Shares may be volatile and fluctuate significantly due to a variety of factors, many of which are outside the Company's control, which could result in losses to prospective investors.
- The interests of the Government, the Company's controlling shareholder, may differ from the interests of the Company or the Company's minority shareholders.
- Prospective investors should only rely on statements made in this Prospectus in determining whether to purchase the Offer Shares.
- There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third party sources contained in this Prospectus.
- There can be no assurance that the Company will pay dividends on the Shares or the amount of any such dividends and the Company may change its dividend policy without prior notice to its minority shareholders.
- Substantial future sales or perceived potential sales of the Shares or other equity securities of the Company in the public market could cause the price of the Shares to decline significantly.
- If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about the Company or its business, the market price for the Shares may decline.

## TABLE OF CONTENTS

Overview of the Company and its Business Activities .....	xxxii
Proposed Acquisitions .....	xxxv
Recent Developments .....	xxxv
Corporate History and Evolution .....	xxxvii
Vision, Mission and Strategy .....	xxxviii
Competitive Strengths .....	xl
<b>1. DEFINITIONS AND ABBREVIATIONS .....</b>	<b>1</b>
1.1 Glossary of Defined Terms .....	1
1.2 Glossary of Measurement and Technical Terms .....	9
1.3 Certain Terminology .....	10
<b>2. RISK FACTORS .....</b>	<b>12</b>
2.1 Risks Related to the Company's Operations .....	12
2.2 Risks Related to the Company's Industry and Regulatory Environment .....	20
2.3 Risks Related to the Offer Shares .....	25
<b>3. INDUSTRY OVERVIEW .....</b>	<b>30</b>
3.1 Overview .....	30
3.2 Global GDP as a Primary Driver of Oil Demand .....	30
3.3 Liquids Supply-Demand Balance .....	32
3.4 Growth in Global Demand for Refined Products and Chemicals .....	35
3.5 In-Kingdom Natural Gas Demand .....	37
3.6 Competitive Landscape .....	38
<b>4. THE COMPANY .....</b>	<b>39</b>
4.1 Overview of the Company and its Business Activities .....	39
4.2 Proposed Acquisitions .....	41
4.3 Recent Developments .....	43
4.4 Corporate History and Evolution .....	44
4.5 Vision, Mission and Strategy .....	45
4.6 Competitive Strengths .....	47
4.7 Operating Segments .....	51
4.8 Geographic Location and Operations .....	79
4.9 Agreements with Key Suppliers .....	79
4.10 Agreements with Key Customers .....	79
4.11 Technology, Research and Development .....	79
4.12 IT and Cybersecurity .....	80
4.13 Health, Safety and Environment .....	81
4.14 Relationship with the Kingdom .....	85
4.15 Corporate Citizenship .....	87
4.16 Business Development Projects .....	88
4.17 Employee Development and Other Programmes .....	88
4.18 Business Continuity .....	89
<b>5. REGULATION OF THE OIL AND GAS INDUSTRY IN THE KINGDOM .....</b>	<b>90</b>
5.1 Overview of Governance, Legal Foundations and Economic Principles .....	90
5.2 Law on Hydrocarbons .....	90
5.3 Law of Gas Supplies and Pricing .....	92
5.4 Regulated Domestic Pricing of Certain Hydrocarbons .....	92
5.5 Other Relevant Laws and Regulations .....	94
<b>6. ORGANISATIONAL STRUCTURE AND CORPORATE GOVERNANCE .....</b>	<b>96</b>
6.1 Organisational Structure .....	96
6.2 Shareholding Structure .....	96
6.3 Board of Directors .....	96
6.4 Service Contracts with Directors .....	100
6.5 Biographies of the Directors .....	100
6.6 Committees .....	106
6.7 Senior Management .....	115



6.8	Compensation of Directors and Senior Executives	118
6.9	Saudi Aramco Share Plan	119
6.10	Corporate Governance	119
6.11	Conflicts of Interest	120
6.12	Employees	120
<b>7.</b>	<b>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS</b>	<b>122</b>
7.1	Introduction	122
7.2	Directors' Declarations for Financial Statements	122
7.3	Key Factors Affecting the Company's Operations	122
7.4	Key Performance Indicators and Non-IFRS Financial Measures	129
7.5	Results of Operations—Income Statement	133
7.6	Financial Position—Balance Sheet	144
7.7	Borrowings	155
7.8	Cash Flow Statement	162
7.9	Commitments, Contingencies and Contractual Obligations	165
7.10	Material Subsidiaries	167
7.11	Quantitative and Qualitative Disclosure About Market Risk	168
7.12	Summary of Significant Accounting Policies	169
7.13	New or Amended Accounting Standards	181
7.14	Financial Statement Presentation of Related Party Transactions	181
<b>8.</b>	<b>DIVIDEND DISTRIBUTION POLICY AND DIVIDENDS FRAMEWORK</b>	<b>183</b>
8.1	General	183
8.2	Dividend Distribution Policy	183
8.3	Dividends Framework	184
<b>9.</b>	<b>USE OF PROCEEDS</b>	<b>185</b>
<b>10.</b>	<b>CAPITALISATION</b>	<b>186</b>
<b>11.</b>	<b>STATEMENTS BY EXPERTS</b>	<b>187</b>
<b>12.</b>	<b>DECLARATIONS IN RESPECT OF DIRECTORS</b>	<b>188</b>
<b>13.</b>	<b>LEGAL INFORMATION</b>	<b>189</b>
13.1	The Company	189
13.2	Shareholding Structure	189
13.3	Subsidiaries	189
13.4	Government Consents, Licences and Certificates	193
13.5	Material Agreements	194
13.6	Financing Agreements and Guarantees	201
13.7	Insurance Policies	202
13.8	Real Estate	203
13.9	Related Party Contracts and Transactions	204
13.10	Conflicts of Interests	208
13.11	Intellectual Property	208
13.12	Litigation	208
13.13	Summary of Bylaws	209
13.14	Description of the Shares	220
<b>14.</b>	<b>TAXATION AND ZAKAT IN THE KINGDOM</b>	<b>221</b>
14.1	Overview of Saudi Tax and Zakat Rules	221
14.2	Certain Tax and Zakat Implications for Shareholders	223
14.3	Definitions	225
<b>15.</b>	<b>UNDERWRITING</b>	<b>226</b>
15.1	Underwriters	226
15.2	Summary of Underwriting Agreement	231
15.3	Underwriting Costs	232
15.4	Contractual Lock-Up Period	232

<b>16.</b>	<b>EXPENSES</b> .....	<b>233</b>
<b>17.</b>	<b>WAIVERS</b> .....	<b>234</b>
<b>18.</b>	<b>SUBSCRIPTION TERMS AND CONDITIONS</b> .....	<b>235</b>
18.1	Offering .....	235
18.2	Pricing .....	242
18.3	Stabilisation and Over-allotment .....	242
18.4	Stock Lending Agreement .....	243
18.5	Circumstances Where Listing may be Suspended or Cancelled .....	243
18.6	Approvals and Decisions Under Which the Offer Shares are Offered .....	245
18.7	Lock-up Period .....	245
18.8	Acknowledgments by Individual Investors .....	245
18.9	Acknowledgments by Institutional Subscribers Located Inside the Kingdom .....	246
18.10	Shares' Record and Trading Arrangements .....	246
18.11	Saudi Stock Exchange .....	246
18.12	Trading of Shares .....	246
18.13	Miscellaneous .....	247
<b>19.</b>	<b>DOCUMENTS AVAILABLE FOR INSPECTION</b> .....	<b>248</b>
<b>20.</b>	<b>FINANCIAL STATEMENTS, SABIC FINANCIAL STATEMENTS AND AUDITOR AND SABIC AUDITOR REPORTS</b> .....	<b>249</b>
	<b>APPENDIX A—2019G Nine Month Interim Period Financial Statements</b> .....	<b>A-1</b>
	<b>APPENDIX B—2019G SABIC Nine Month Interim Financial Statements</b> .....	<b>B-1</b>
	<b>APPENDIX C—Certification Letter of D&amp;M</b> .....	<b>C-1</b>

## TABLES

Table 1:	Non-IFRS Financial Measures . . . . .	vi
Table 2:	The Company’s Board of Directors . . . . .	ix
Table 3:	Selling Shareholder and the ownership interests in the Company pre- and post-Offering . . . . .	xxiii
Table 4:	Expected Offering timetable . . . . .	xxx
Table 5:	Consolidated Statement of Income Data . . . . .	xlii
Table 6:	Selected Consolidated Balance Sheet Data . . . . .	xliii
Table 7:	Selected Consolidated Statement of Cash Flows Data . . . . .	xliii
Table 8:	Selected Non-IFRS Financial Measures . . . . .	xliii
Table 9:	Comparison of the Company’s operating cash flow, Free Cash Flow, EBIT, EBITDA and ROACE against the Five Major IOCs . . . . .	50
Table 10:	The Company’s estimates of its proved reserves of crude oil, condensate, natural gas and NGLs based on the term of the Concession as at 31 December 2017G and 2018G . . . . .	53
Table 11:	The Kingdom’s estimates of its proved reserves of crude oil, condensate, natural gas and NGLs in the fields the Company operates as at 31 December 2017G and 2018G . . . . .	53
Table 12:	Production and delivery volumes of upstream products for 2016G, 2017G and 2018G . . . . .	55
Table 13:	The API gravity and sulphur content of the Company’s crude oil grades and the percentage of proved reserves as at 31 December 2018G . . . . .	57
Table 14:	Key characteristics of certain of the Company’s principal oil fields by reserves listed as at 31 December 2018G . . . . .	58
Table 15:	Gross refining capacity and weighted average NCI of the Company’s refineries as at 31 December 2018G . . . . .	68
Table 16:	The Company’s share of production volume for its principal refined products for each of 2017G and 2018G . . . . .	69
Table 17:	The Company’s domestic wholly owned refineries as at 31 December 2018G . . . . .	70
Table 18:	The Company’s domestic affiliated refineries as at 31 December 2018G . . . . .	71
Table 19:	The Company’s international refining and marketing operations as at 31 December 2018G . . . . .	72
Table 20:	The Company’s standalone chemicals facilities as at 31 December 2018G . . . . .	75
Table 21:	Integrated refining and chemicals operations as at 31 December 2018G . . . . .	76
Table 22:	The Company’s gross production capacity and net production capacity for each type of its commodity petrochemicals, principal polyolefins, synthetic rubber and elastomers and other chemicals as at 31 December 2018G . . . . .	77
Table 23:	SABIC’s net production capacity for certain petrochemical products as at 31 December 2018G . . . . .	77
Table 24:	Summary of the Company’s power generation capacity as at 31 December 2018G . . . . .	79
Table 25:	Scope 1, Scope 2 and total GHG (Scope 1 and Scope 2) emissions for the upstream and downstream operations of Saudi Aramco and its in-Kingdom wholly owned facilities by type of emissions for the year ended 31 December 2018G . . . . .	83
Table 26:	Selling Shareholder and the ownership interests in the Company pre- and post-Offering . . . . .	96
Table 27:	The Company’s Board of Directors . . . . .	98
Table 28:	Audit Committee members . . . . .	109
Table 29:	Nomination Committee members . . . . .	111

Table 30:	Compensation Committee members .....	113
Table 31:	Risk and HSE Committee members .....	114
Table 32:	Details of Senior Executives .....	116
Table 33:	Director and top five Senior Executives remuneration .....	119
Table 34:	Number of employees of Saudi Aramco and its Material Subsidiaries in the Kingdom and achieved Saudisation percentages as at 31 December 2016G, 2017G and 2018G .....	120
Table 35:	Number of employees of Saudi Aramco and their distribution across Saudi Aramco's operating segments as at 31 December 2016G, 2017G and 2018G .....	121
Table 36:	The Company's crude oil deliveries for each of the years ended 31 December 2016G, 2017G and 2018G .....	124
Table 37:	The Company's key operational performance indicators for the years ended 31 December 2016G, 2017G and 2018G .....	129
Table 38:	EBIT, EBITDA and Free Cash Flow for the years ended 31 December 2016G, 2017G and 2018G and for the six months ended 30 June 2019G .....	129
Table 39:	ROACE for the years ended 31 December 2016G, 2017G and 2018G and for the twelve months ended 30 June 2018G and 2019G .....	130
Table 40:	Gearing as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	130
Table 41:	Free Cash Flow and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	131
Table 42:	Gearing and reconciliation as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	131
Table 43:	ROACE and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the twelve months ended 30 June 2018G and 2019G .....	132
Table 44:	EBIT and EBITDA and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	132
Table 45:	Income statement for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	133
Table 46:	Revenue and other income related to sales by business segment for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	135
Table 47:	Operating costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	137
Table 48:	Purchases for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	138
Table 49:	Net income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	141
Table 50:	Current and deferred income tax expense for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	142
Table 51:	Total comprehensive income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	143
Table 52:	Balance sheet as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	144
Table 53:	Non-current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	145
Table 54:	Gross book value, accumulated depreciation and carrying amount of the Company's property, plant and equipment assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	146

Table 55:	Investment in joint ventures and associates as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	147
Table 56:	Sadara's share capital and accumulated losses as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	148
Table 57:	Current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	149
Table 58:	Shareholder's equity as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	150
Table 59:	Non-current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	152
Table 60:	Current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G ..	153
Table 61:	Borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	155
Table 62:	Borrowing facilities and debt programs as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	156
Table 63:	The carrying amounts of the Company's non-current borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	159
Table 64:	The change in unamortised transaction costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G .....	159
Table 65:	The maturities of long-term loans at the applicable carrying amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	160
Table 66:	The maturities of long-term loans at the applicable contractual amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	160
Table 67:	The total finance lease obligations (minimum lease payments) and related future finance charges of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	161
Table 68:	The present value of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	161
Table 69:	Cash flow statements for the years 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	162
Table 70:	Selected cash flow data for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	163
Table 71:	Capital expenditures for each of its operating segments for the years ended 31 December 2016G, 2017G and 2018G and the six month periods ended 30 June 2018G and 2019G .....	164
Table 72:	Contractual obligations as at 31 December 2018G .....	165
Table 73:	Commitments and contingencies in connection with financing arrangements at Sadara as at 31 December 2018G .....	166
Table 74:	Net income of the Company's Material Subsidiaries for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	167
Table 75:	Summary balance sheets of the Company's Material Subsidiaries as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	168
Table 76:	The estimated useful lives of the principal groups of intangible assets .....	171
Table 77:	The estimated useful lives of the principal groups of depreciable assets .....	172
Table 78:	Related party transactions for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G .....	182
Table 79:	Related party transaction balances as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G .....	182
Table 80:	Capitalisation of the Company .....	186

Table 81:	Direct ownership structure of Saudi Aramco Pre- and Post-Offering .....	189
Table 82:	Material Subsidiaries .....	191
Table 83:	Current ownership structure of ASC .....	191
Table 84:	Current ownership structure of Motiva .....	192
Table 85:	Current ownership structure of ATC .....	192
Table 86:	Current ownership structure of SATORP .....	192
Table 87:	Current ownership structure of Petro Rabigh .....	193
Table 88:	Current ownership structure of S-Oil .....	193
Table 89:	Details of material regulatory and operational licences and certificates obtained by the Company .....	194
Table 90:	Details of material financing agreements and guarantees .....	201
Table 91:	Details of material insurance policies .....	203
Table 92:	Key particulars of certain of the Company's land reservations .....	204
Table 93:	Underwriting commitments .....	232

## EXHIBITS

Exhibit 1:	Actual and expected real GDP annual growth rates in OECD and non-OECD countries from 2009G to 2030G .....	31
Exhibit 2:	Global actual and expected annual crude oil demand and growth rates from 2000G to 2030G .....	31
Exhibit 3:	Actual and expected sources of energy from 1990G to 2030G .....	32
Exhibit 4:	Liquids supply-demand dynamic from 2000G to 2019G .....	32
Exhibit 5:	Relationship between global liquids balance and Brent price from 2000G to 2019G .....	33
Exhibit 6:	Post-tax breakeven costs for new oil projects at a 10% rate of return by country through 2030G .....	34
Exhibit 7:	Actual and expected supply of crude oil and NGLs from 2015G to 2050G under both demand scenarios. ....	34
Exhibit 8:	Actual and expected refined product demand by region from 2010G to 2030G .....	35
Exhibit 9:	Net cumulative refinery capacity additions and (closures) between 2009G and 2018G .....	36
Exhibit 10:	Global actual and expected domestic demand for ethylene by region from 2010G to 2030G .....	36
Exhibit 11:	Kingdom's actual and expected natural gas demand by sector from 2010G to 2030G .....	37
Exhibit 12:	Actual and expected power capacity growth by fuel (including natural gas) used in the Kingdom from 2010G to 2030G .....	38
Exhibit 13:	The location of the Company's key fields in the Kingdom .....	51
Exhibit 14:	The Kingdom's original crude oil and condensate reserves from 2007G to 2018G .....	53
Exhibit 15:	The Kingdom's original non-associated raw gas reserves from 2007G to 2018G .....	54
Exhibit 16:	Depletion stage for the Kingdom's crude oil reservoirs as at 31 December 2018G .....	56
Exhibit 17:	The location of the Company's crude oil processing infrastructure in relation to certain Company facilities as at 31 December 2018G .....	61
Exhibit 18:	Locations of the Company's crude oil deliveries in 2018G .....	61
Exhibit 19:	The Company's crude oil production from 2009G to 2018G .....	62
Exhibit 20:	The Company's global crude oil production market share from 2009G to 2018G .....	62
Exhibit 21:	Historical increases in gas processing capacity from 1980G to 2018G and planned increases through 2023G (excluding Shaybah gas processing) .....	64
Exhibit 22:	Refining capacity from 2006G to 2018G and expected expansion to 2020G .....	69
Exhibit 23:	Growth of net production capacity in the Company's chemicals business from 1992G to 2018G and expected expansion to 2020G (excluding SABIC) .....	74
Exhibit 24:	The Company's key domestic downstream infrastructure as at 31 December 2018G .....	78
Exhibit 25:	Saudi Aramco's total workforce, including contractors, TRC rate and LTI rate from 2015G to 2018G .....	81
Exhibit 26:	The Kingdom's average carbon intensity compared to other major hydrocarbon producing countries according to the 31 August 2018G edition of Science Magazine .....	83
Exhibit 27:	Energy intensity of Saudi Aramco's in-Kingdom operated facilities from 2013G to 2018G ..	85
Exhibit 28:	Organisational structure of the Company .....	96
Exhibit 29:	Senior Executives of the Company .....	115
Exhibit 30:	Structure of Saudi Aramco's subsidiaries as at 30 September 2019G .....	190

## 1. DEFINITIONS AND ABBREVIATIONS

### 1.1 Glossary of Defined Terms

<b>2017G Financial Statements</b>	The audited consolidated financial statements of the Company as at and for the year ended 31 December 2017G (with comparative data as at and for the year ended 31 December 2016G) prepared in accordance with IFRS.
<b>2018G Financial Statements</b>	The audited consolidated financial statements of the Company as at and for the year ended 31 December 2018G (with comparative data as at and for the year ended 31 December 2017G) prepared in accordance with IFRS.
<b>2018G SABIC Financial Statements</b>	The audited consolidated financial statements of SABIC as at and for the year ended 31 December 2018G (with comparative data as at and for the year ended 31 December 2017G) prepared in accordance with IFRS.
<b>2019G Nine Month Interim Period Financial Statements</b>	The condensed consolidated interim financial report of the Company for the three and nine months ended 30 September 2019G (unaudited) prepared in accordance with IAS 34.
<b>2019G SABIC Nine Month Interim Financial Statements</b>	The unaudited interim condensed consolidated financial statements of SABIC as at and for the three and nine months ended 30 September 2019G (with comparative data as at and for the nine months ended 30 September 2018G) prepared in accordance with IAS 34.
<b>2019G SABIC Six Month Interim Financial Statements</b>	The unaudited interim condensed consolidated financial statements of SABIC as at and for the three and six months ended 30 June 2019G (with comparative data as at and for the six months ended 30 June 2018G) prepared in accordance with IAS 34.
<b>2019G Six Month Interim Period Financial Statements</b>	The condensed consolidated interim financial report of the Company for the three and six months ended 30 June 2019G (unaudited) prepared in accordance with IAS 34.
<b>Advisors</b>	Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners and Lead Manager.
<b>affiliate</b>	A person who controls another person or is controlled by that other person, or who is under common control with that person by a third person. In any of the preceding, control could be direct or indirect.
<b>AGOC</b>	Aramco Gulf Operations Company Ltd.
<b>API</b>	The American Petroleum Institute, which is the major United States trade association for the oil and gas industry.
<b>ARLANXEO</b>	Arlanxeo Holding B.V., a wholly owned speciality chemicals subsidiary.
<b>ASC</b>	Aramco Service Company, a Material Subsidiary.
<b>ATC</b>	Aramco Trading Company, a Material Subsidiary.
<b>Auditor</b>	PricewaterhouseCoopers Public Accountants, the independent external auditor of the Company.
<b>Authorised Person</b>	A person authorised by the CMA to carry out securities business.
<b>Bid/Subscription Orders</b>	Bid or subscription orders submitted telephonically or electronically by Institutional Subscribers not registered in the Kingdom to the Foreign Institutional Joint Bookrunners (residing outside the Kingdom) without the need to complete and sign a Bid Form in accordance with the instructions set out in Section 18 ( <i>Subscription Terms and Conditions</i> ).



<b>Bid Form</b>	The bid form to be used by Institutional Subscribers registered in the Kingdom to bid for the Offer Shares during the Book-Building Period and to be submitted to the Institutional Joint Bookrunners. This term includes, when applicable, the appended bid form when the price range is changed.
<b>Blended Price</b>	As defined in Section 5.4.3 ( <i>Gas Pricing</i> ).
<b>Bonus Holding Period</b>	The period of 180 days from (and including) the first date that the Shares begin trading on the Exchange.
<b>Book-Building Instructions</b>	The Instructions on Book Building and Allocation of Shares in Initial Public Offerings, issued pursuant to the CMA Board Resolution No. 2-94-2016, dated 15/10/1437H (corresponding to 20 July 2016G), as amended by CMA Board Resolution No. 4-4-2018, dated 23/4/1439H (corresponding to 10 January 2018G).
<b>BP</b>	BP plc.
<b>Business Day</b>	Any day (with the exception of Fridays, Saturdays and official holidays) on which the Receiving Entities are open for business in the Kingdom.
<b>Bylaws</b>	The Bylaws of the Company, approved by Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G), which came into effect on 1 January 2018G.
<b>CAGR</b>	Compound annual growth rate (the average annual growth rate over a specified period of time longer than one year).
<b>CASOC</b>	California Arabian Standard Oil Company.
<b>Chevron</b>	Chevron Corporation.
<b>CMA</b>	The Capital Market Authority, including, where the context permits, any committee, sub-committee, employee or agent to whom any function of the CMA may be delegated.
<b>CML</b>	Capital Market Law issued under Royal Decree M/30, dated 2/6/1424H (corresponding to 1 August 2003G), as amended.
<b>Companies Law</b>	The Companies Law, issued under Royal Decree No. M/3, dated 28/1/1437H (corresponding to 10 November 2015G), as amended.
<b>Company</b>	Saudi Aramco, together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.
<b>Concession Area</b>	The territorial lands and maritime areas of the Kingdom other than those located in (i) the boundaries of the Holy Mosques in Makkah Al-Mukarramah and Madinah Al-Munawwarah, (ii) the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait and (iii) the common zone in the Red Sea in accordance with the agreement between the Kingdom and the Republic of Sudan.
<b>Consultants</b>	Industry Consultant and D&M.
<b>Contractual Lock-up Period</b>	The contractual period of 12 months after the commencement of trading of the Shares on the Exchange.
<b>Coordination Agreement</b>	The coordination agreement entered into among the Company, the Joint Financial Advisers, the Joint Global Coordinators and the Joint Bookrunners in connection with the Offering.
<b>Corporate Governance Regulations</b>	The Corporate Governance Regulations issued pursuant to the CMA Board Resolution No. 8-16-2017, dated 16/5/1438H (corresponding to 13 February 2017G), as amended.
<b>Council of Ministers</b>	The cabinet of the Kingdom, which is led by the Custodian of the Two Holy Mosques, the King, and includes HRH the Crown Prince and other cabinet ministers.

<b>D&amp;M</b>	DeGolyer & MacNaughton, the Company's independent petroleum consultant.
<b>Domestic Price</b>	As defined in Section 5.4.3 ( <i>Gas Pricing</i> ).
<b>Dow</b>	Dow Inc.
<b>Eligible Retail Bonus Investor</b>	A Saudi Arabian national, including a Saudi female divorcee or widow with minor Saudi children; provided that if a Retail Subscription Form is submitted for a Saudi Arabian national applying for himself or herself and other persons appearing on such national's family identification card, then each such Saudi Arabian family member will be considered to be an Eligible Retail Bonus Investor. The determination of whether Eligible Shares have been continuously and uninterruptedly held for the Bonus Holding Period will be made separately for each Eligible Retail Bonus Investor, including any person considered to be an Eligible Retail Bonus Investor pursuant to the proviso in the previous sentence.
<b>Exchange or Tadawul</b>	The Saudi Stock Exchange, the sole entity authorised in the Kingdom to act as a securities exchange.
<b>Excluded Areas</b>	The limited area excluded from the Company's rights under the Concession, consisting of: (a) the boundaries of the Holy Mosques in Makkah Al-Mukarramah and Madinah Al-Munawwarah, (b) the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait and (c) the common zone in the Red Sea in accordance with the agreement between the Kingdom and the Republic of Sudan.
<b>Extraordinary General Assembly</b>	As defined in Section 13.13.24 ( <i>Shareholders' Assemblies</i> ).
<b>ExxonMobil</b>	ExxonMobil Corporation.
<b>Financial Statements</b>	The 2017G Financial Statements, the 2018G Financial Statements and the 2019G Six Month Interim Period Financial Statements.
<b>Five Major IOCs</b>	Collectively, ExxonMobil, Shell, Chevron, Total and BP.
<b>Foreign Institutional Joint Bookrunners (residing outside the Kingdom)</b>	Citigroup Global Markets Limited; Goldman Sachs International; J.P. Morgan Securities plc; Morgan Stanley & Co. International plc; Banco Santander, S.A.; BNP PARIBAS; BOCI Asia Limited; Crédit Agricole Corporate and Investment Bank; Deutsche Bank AG, London Branch; First Abu Dhabi Bank PJSC; Mizuho International plc; RBC Europe Limited; SMBC Nikko Capital Markets Limited; Société Générale; and UBS AG, London Branch.
<b>Foreign Investors</b>	(i) Non-Saudi nationals who are not residents in the Kingdom and (ii) institutions other than Qualified Foreign Investors incorporated outside the Kingdom, in accordance with the QFI Rules and the FSI Instructions.
<b>Foreign Strategic Investor</b>	A foreign legal entity aiming to acquire a strategic interest in listed companies in accordance with the FSI Instructions. " <b>Strategic interest</b> " means the direct ownership percentage in the listed company's shares, through which the owner aims to contribute to enhancing the financial or operating performance of the listed company.
<b>FREP</b>	Fujian Refining & Petrochemical Company Ltd., a joint venture established among Saudi Aramco Sino Company Ltd., Fujian Petrochemical Company Ltd. (itself a joint venture between Sinopec and the Fujian, China provincial government) and ExxonMobil China Petroleum & Petrochemical Company Ltd.
<b>FSI Instructions</b>	Instructions for foreign strategic investors to acquire strategic stakes in listed companies issued by the Board of the CMA pursuant to Resolution No. 3-65-2019 dated 17/10/1440H (corresponding to 17 June 2019G), as amended.

<b>FSIA</b>	U.S. Foreign Sovereign Immunity Act.
<b>G</b>	Gregorian calendar.
<b>Gas Field Development Area</b>	The location of the relevant field in connection with a Gas Field Development Project.
<b>Gas Field Development Project</b>	Each development of specified non-associated gas fields located in the Concession Area.
<b>GAZT</b>	The Saudi Arabian General Authority of Zakat and Tax.
<b>GCC</b>	The Cooperation Council for the Arab States of the Gulf, consisting of the member states of the Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and United Arab Emirates.
<b>GDP</b>	Gross domestic product (the broadest quantitative measure of a nation's total economic activity, representing the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time).
<b>General Assemblies</b>	Any Ordinary General Assembly or Extraordinary General Assembly.
<b>GHG</b>	Greenhouse gas.
<b>GMTN Programme</b>	As defined in section 7.7.1 ( <i>GMTN Programme</i> ).
<b>Government</b>	The Government of the Kingdom (and " <b>Governmental</b> " shall be interpreted accordingly). In the context of acting as a Shareholder of the Company, the Government is the State. See Section 13.13 ( <i>Summary of Bylaws</i> ).
<b>GSPR</b>	The Law of Gas Supplies and Pricing enacted by Royal Decree No. M/36, dated 25/6/1424H (corresponding to 23 August 2003G), as amended.
<b>H</b>	Hijri calendar.
<b>Hydrocarbons Law</b>	Law governing hydrocarbons, hydrocarbon resources, and hydrocarbon operations existing within the territory of the Kingdom, enacted by Royal Decree No. M/37, dated 2/4/1439H (corresponding to 20 December 2017G), as amended. See Section 5.2 ( <i>Law on Hydrocarbons</i> ).
<b>IAS 34</b>	International Accounting Standard 34 "Interim Financial Reporting" that is endorsed in the Kingdom.
<b>IASB</b>	International Accounting Standards Board.
<b>Idemitsu Kosan</b>	Idemitsu Kosan Co., Ltd.
<b>IFRS</b>	International Financial Reporting Standards that are endorsed in the Kingdom and other standards and pronouncements endorsed by SOCPA.
<b>Income Tax Law</b>	Income Tax Law issued under Royal Decree No. M/1 dated 15/1/1425H (corresponding to 6 March 2004G) and its Implementing Regulations issued under Ministerial Resolution No. 1535 dated 11/6/1425H (corresponding to 11 August 2004G), as amended from time to time.
<b>Individual Investors</b>	Individuals who are Saudi Arabian nationals, including Saudi female divorcees or widows with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities.
<b>Industry Consultant</b>	IHS Markit Ltd.

<b>Institutional Investors Subscription Form</b>	The subscription form used by Institutional Subscribers registered in the Kingdom on the day of the allocation of the Offer Shares based on the number of Offer Shares allocated to such Institutional Subscriber.
<b>Institutional Joint Bookrunners</b>	HSBC Saudi Arabia; Merrill Lynch Kingdom of Saudi Arabia; NCB Capital Company; Samba Capital & Investment Management Company; Al Rajhi Capital; EFG Hermes KSA; GIB Capital; Riyadh Capital; and Saudi Fransi Capital.
<b>Institutional Subscribers</b>	<p>Institutional investors eligible to participate in the book-building process, as follows:</p> <ul style="list-style-type: none"> <li>• public and private funds that invest in securities listed on the Exchange, if permissible according to the terms and conditions of such funds, in compliance with the provisions and restrictions set forth in the Investment Funds Regulations and the Book-Building Instructions;</li> <li>• Authorised Persons licensed to deal in securities as a principal, in compliance with the provisions set forth in the CMA's prudential rules, when submitting an application form to the CMA;</li> <li>• clients of a person authorised by the CMA to conduct managing activities with the provisions and restrictions set forth in the Book-Building Instructions;</li> <li>• legal persons allowed to open an investment account in the Kingdom, and an account with the Depository Centre, including foreign legal persons allowed to invest in the shares of an issuer that will be listed on the Exchange, in compliance with the controls on investment by listed companies in the securities listed on the Exchange, as stipulated in the CMA Circular No. 6/05158, dated 11/8/1435H (corresponding to 9 June 2014G), issued pursuant to CMA Board Resolution No. 9-28-2014, dated 20/7/1435H (corresponding to 19 May 2014G);</li> <li>• Government entities, any supranational authority recognised by the CMA, the Exchange, or any other stock exchange recognised by the CMA, or the Depository Centre;</li> <li>• Government owned companies, whether investing directly or through a portfolio manager; and</li> <li>• GCC companies, and GCC funds if permissible according to the terms and conditions of such funds.</li> </ul>
<b>Investment Funds Regulations</b>	The Investment Funds Regulations issued pursuant to CMA Board Resolution No. 1-219-2006, dated 3/12/1427H (corresponding to 24 December 2006G), as based on the CMA Law promulgated by Royal Decree No. M/30 dated 2/6/1424H, as amended by CMA Board Resolution No. 1-61-2016 on 16/8/1437H (corresponding to 23 May 2016G), as amended.
<b>IOCs</b>	International oil companies.
<b>Joint Bookrunners</b>	Institutional Joint Bookrunners and Foreign Institutional Joint Bookrunners (residing outside the Kingdom).
<b>Joint Financial Advisors</b>	Citigroup Saudi Arabia; Credit Suisse Saudi Arabia; Goldman Sachs Saudi Arabia; HSBC Saudi Arabia; J.P. Morgan Saudi Arabia Company; Merrill Lynch Kingdom of Saudi Arabia; Morgan Stanley Saudi Arabia; NCB Capital Company; and Samba Capital & Investment Management Company.

<b>Joint Global Coordinators</b>	Citigroup Global Markets Limited; Credit Suisse Securities (Europe) Limited; Goldman Sachs International; HSBC Saudi Arabia; J.P. Morgan Securities plc; Merrill Lynch Kingdom of Saudi Arabia; Morgan Stanley & Co. International plc; NCB Capital Company; and Samba Capital & Investment Management Company.
<b>KAPSARC</b>	King Abdullah Petroleum Studies and Research Center.
<b>KAUST</b>	King Abdullah University of Science and Technology.
<b>KFUPM</b>	King Fahd University of Petroleum and Minerals.
<b>Lanxess</b>	Lanxess AG.
<b>Lead Manager</b>	Samba Capital & Investment Management Company.
<b>Listing</b>	Admission of all the Shares to listing and to trading on the Exchange in accordance with the Listing Rules.
<b>Listing Rules</b>	The Listing Rules approved by the Board of the CMA pursuant to its Resolution No. 3-123-2017, dated 9/4/1439H (corresponding to 27 December 2017G), as amended by the CMA Board Resolution No. 1-04-2019 dated 1/2/1441H (corresponding to 30 September 2019G).
<b>Luberef</b>	Saudi Aramco Base Oil Company, a joint venture between the Company and Jadwa Industrial Investment Company, which acquired its share from Mobil in 2007G.
<b>Material Subsidiaries</b>	As defined in Section 13.3.1 ( <i>Material Subsidiaries</i> ).
<b>MENA</b>	Middle East and North Africa.
<b>MEWA</b>	Ministry of Environment, Water and Agriculture of the Kingdom.
<b>MGS</b>	Master Gas System, an extensive network of pipelines that connects the Company's key gas production and processing sites throughout the Kingdom.
<b>Ministry of Energy</b>	Ministry of Energy of the Kingdom.
<b>Ministry of Labour</b>	Ministry of Labour and Social Development of the Kingdom.
<b>Motiva</b>	Motiva Enterprises LLC, a Material Subsidiary.
<b>NCI</b>	Nelson Complexity Index, which is a cost-based measure of refining complexity and compares the relative costs of a refinery based on the additional cost of upgrading and the relative upgrading capacity.
<b>New York Convention</b>	The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958.
<b>NOCs</b>	National oil companies.
<b>OECD</b>	Organisation for Economic Co-operation and Development.
<b>Offering</b>	The initial public offering of the Offer Shares at a price range of SAR 30 to SAR 32 per Share. The Final Offer Price, number of Offer Shares to be sold and percentage that the Offer Shares to be sold represent of the outstanding Shares will be determined at the end of the Book-Building Period.
<b>OPEC</b>	Organisation of the Petroleum Exporting Countries.
<b>Ordinary General Assembly</b>	As defined in Section 13.13.24 ( <i>Shareholders' Assemblies</i> ).
<b>OSCO Rules</b>	The Rules on the Offer of Securities and Continuing Obligations issued by the board of the CMA pursuant to CMA Board Resolution No. 3-123-2017 dated 9/4/1439H (corresponding to 27 December 2017G) based on the Capital Market Law, as amended by CMA Board Resolution No. 1-104-2019 dated 1/2/1441H (corresponding to 30 September 2019G).

<b>Over-allotment</b>	A process by which a number of additional shares is allocated to the shares offered for subscription pursuant to stabilisation activities.
<b>Over-allotment Option</b>	The grant of a purchase option by the Selling Shareholder to the Stabilising Manager of the Over-allotment Shares.
<b>Over-allotment Shares</b>	An additional number of Shares equal to up to 15% of the total number of Shares to be sold in the Offering, granted by the Selling Shareholder to the Stabilising Manager in connection with the Over-allotment Option.
<b>Paris Agreement</b>	An agreement within the United Nations Framework Convention on Climate Change.
<b>person</b>	Any natural or legal person recognised as such under the laws of the Kingdom.
<b>Petro Rabigh</b>	Rabigh Refining and Petrochemical Company, a venture established by the Company and Sumitomo Chemical Co., Ltd. in 2005G, which is a publicly traded company listed on Tadawul.
<b>Petronas</b>	Petroleum Nasional Bhd.
<b>PIF</b>	Public Investment Fund of the Kingdom.
<b>PRefChem</b>	PRefChem Petrochemical and PRefChem Refining.
<b>PRefChem Petrochemical</b>	Pengerang Petrochemical Company Sdn. Bhd.
<b>PRefChem Refining</b>	Pengerang Refining Company Sdn. Bhd.
<b>QFI Rules</b>	The Rules for Qualified Foreign Financial Institutions Investment in Listed Shares issued pursuant to CMA Board Resolution No. 1-42-2015, dated 15/7/1436H (corresponding to 4 May 2018G), as most recently amended by CMA Board Resolution No. 3-65-2019, dated 14/10/1440H (corresponding to 17 June 2019G).
<b>Qualified Foreign Investor or QFI</b>	An institution that meets the qualification requirements in the QFI Rules.
<b>R&amp;D</b>	Research and development.
<b>Receiving Entities</b>	National Commercial Bank; Saudi British Bank (SABB); Samba Financial Group; Al Rajhi Bank; Alawwal Bank; Alinma Bank; Arab National Bank; Bank Albilad; Bank Aljazira; Banque Saudi Fransi; Gulf International Bank; Riyadh Bank and Saudi Investment Bank.
<b>Regulated Gas Products</b>	Gas hydrocarbons which are subject to the Kingdom's gas pricing regime, including natural gas, ethane and NGLs (propane, butane and natural gasoline).
<b>Related Party</b>	<p>In this Prospectus, in accordance with an exemption granted by the CMA to the Company from the obligation to define a "related party" as used in the OSCO Rules as stipulated in the glossary of defined terms used in the regulations and rules of the CMA, when disclosing material transactions and contracts with related parties in this Prospectus pursuant to Annex (9) of the OSCO Rules a "related party" includes any of the following:</p> <ol style="list-style-type: none"> <li>1. significant shareholders of the issuer;</li> <li>2. subsidiaries of the issuer (if they enter into non-arm's length transactions), excluding wholly owned subsidiaries of the issuer;</li> <li>3. directors and senior executives of the issuer;</li> <li>4. directors and senior executives of subsidiaries of the issuer, excluding wholly owned subsidiaries of the issuer;</li> <li>5. directors and senior executives of substantial shareholders of the issuer;</li> </ol>

	<p>6. any relatives of persons described at paragraphs (1), (3), (4) or (5) above; and</p> <p>7. any company controlled by any person described at paragraphs (1), (3), (4), (5) or (6).</p>
<b>Reserved Areas</b>	The areas reserved for the Company's operations within the Concession Area.
<b>Retail Subscription Form</b>	The retail subscription form to be used by Individual Investors to subscribe for the Offer Shares during the Retail Offering Period.
<b>S-Oil</b>	S-Oil Corporation.
<b>SABIC</b>	Saudi Basic Industries Corporation.
<b>SABIC Auditor</b>	Ernst & Young & Co. (Certified Public Accountants), the independent auditor to SABIC.
<b>SABIC Financial Statements</b>	The 2018G SABIC Financial Statements and the 2019G SABIC Six Month Interim Financial Statements.
<b>Sadara</b>	Sadara Chemical Company, a joint venture established by the Company and Dow Saudi Arabia B.V. in 2011G.
<b>SADCO</b>	Saudi Aramco Development Company.
<b>SAMREF</b>	Saudi Aramco Mobil Refinery Company Limited, a joint venture established by the Saudi Arabian Marketing and Refining Company and Mobil Yanbu' Refining Company Inc. in 1982G.
<b>SAR or Saudi Riyal</b>	Saudi Arabian Riyal, the lawful currency of the Kingdom.
<b>SASREF</b>	Saudi Aramco Shell Refinery Company, a former joint operation between the Company and Shell.
<b>SATORP</b>	Saudi Aramco Total Refining and Petrochemical Company, a joint venture established by the Company and Total Refining Saudi Arabia SAS in 2008G.
<b>Saudi Aramco</b>	Saudi Arabian Oil Company (Saudi Aramco).
<b>Scope 1</b>	Direct emissions, which include (a) fuels combusted in stationary sources on-site, (b) flaring, (c) equipment blowdown, (d) process vents, such as storage tanks and dehydration units and (e) fugitive emissions from leaking components.
<b>Scope 2</b>	Indirect emissions, which account for GHG emissions from the generation of electricity that is purchased or otherwise brought into the organisational boundary of the Company and steam that is consumed by the Company.
<b>Senior Executives</b>	The members of the senior management of the Company holding the title of Senior Vice President or higher and listed in Section 6.7 ( <i>Senior Management</i> ).
<b>Senior Management</b>	The Senior Executives and other officers of the Company who, while subordinate to the Senior Executives, are still involved in the management of the Company and participate in driving its strategies, decisions or operations.
<b>Senior Unsecured Notes</b>	As defined in Section 7.7.1 ( <i>GMTN Programme</i> ).
<b>Shareholder</b>	Any holder of Shares.
<b>Sharia</b>	The paramount source of Islamic law.
<b>Shell</b>	Royal Dutch Shell plc.
<b>Sinopec</b>	China Petroleum & Chemical Corporation.
<b>Socal</b>	Standard Oil of California.
<b>SOCPA</b>	Saudi Organization for Certified Public Accountants.

<b>SPE-PRMS</b>	Society of Petroleum Engineers—Petroleum Resources Management System.
<b>SSPC</b>	Sinopec SenMei (Fujian) Petroleum Company Limited.
<b>Stabilisation Instructions</b>	The Instructions on the Price Stabilisation Mechanism for the Initial Public Offerings issued by the CMA on 24/11/1439H (corresponding to 6 August 2018G).
<b>Stabilising Manager</b>	Goldman Sachs Saudi Arabia.
<b>Statutory Lock-up Period</b>	The six month period after the commencement of trading of the Shares on the Exchange.
<b>Stellar</b>	Stellar Insurance, Ltd.
<b>STEM</b>	Science, technology, engineering and mathematics.
<b>Subscribers</b>	Includes Institutional Subscribers and Individual Investors.
<b>Subsidiaries</b>	The companies that the Company controls through its ability to influence the actions or decisions of another person through, whether directly or indirectly, alone or with a relative or affiliate (i) holding 30% or more of the voting rights in a company or (ii) having the right to appoint 30% or more of the members of the governing body of a company.
<b>Substantial Shareholder</b>	A Shareholder that owns 5% or more of Saudi Aramco’s Shares.
<b>Sukuk Programme</b>	A Saudi domestic sukuk programme established by the Company on 22/6/1438H (corresponding to 21 March 2017G) for the issuance of up to \$10 billion (SAR 37.5 billion) in aggregate nominal amount of Sukuk.
<b>Sumitomo</b>	Sumitomo Chemical Co., Ltd.
<b>Total</b>	Total S.A.
<b>Underwriters</b>	As listed in Section 15.1 ( <i>Underwriters</i> ).
<b>Underwriting Agreement</b>	The underwriting agreement entered into among Saudi Aramco, the Selling Shareholder and the Underwriters in connection with the Offering.
<b>VAT</b>	Value-added tax.
<b>YASREF</b>	Yanbu’ Aramco Sinopec Refinery Company Limited, a joint venture established by the Company and Sinopec Century Bright Capital Investment (Amsterdam) B.V. in 2010G.

## 1.2 Glossary of Measurement and Technical Terms

<b>barrels or bbls</b>	Barrels of crude oil, condensate or refined products.
<b>boe</b>	Barrels of oil equivalent.
<b>bscf</b>	Billion standard cubic feet.
<b>BTU</b>	British Thermal Unit.
<b>kBTU</b>	Thousand British Thermal Units.
<b>mboed</b>	Thousand barrels of oil equivalent per day.
<b>mmboe</b>	Million barrels of oil equivalent.
<b>mbspd</b>	Thousand barrels per day.
<b>mmbpd</b>	Million barrels per day.
<b>mmbbl</b>	Million barrels of crude oil, condensate or refined products.



<b>mmBTU</b>	Million British Thermal Units.
<b>mmscfd</b>	Million standard cubic feet per day.
<b>scf</b>	Standard cubic feet.

### 1.3 Certain Terminology

<b>Arabian Extra Light</b>	Crude oil with API gravity of 36° to 40° and sulphur content between 0.5% and 1.3%.
<b>Arabian Heavy</b>	Crude oil with API gravity less than 29° and sulphur content greater than 2.9%.
<b>Arabian Light</b>	Crude oil with API gravity of 32° to 36° and sulphur content between 1.3% and 2.2%.
<b>Arabian Medium</b>	Crude oil with API gravity of 29° to 32° and sulphur content between 2.2% and 2.9%.
<b>Arabian Super Light</b>	Crude oil with API gravity more than 40° and sulphur content less than 0.5%.
<b>catalytic cracking</b>	A process by which hydrocarbon molecules are broken down (cracked) into lighter fractions by the action of a catalyst.
<b>condensate</b>	Light hydrocarbon substances produced with raw gas which condenses into liquid at normal temperatures and pressures associated with surface production equipment.
<b>delineation</b>	A process by which new wells are drilled in order to determine the boundaries of a discovered oil or gas field, both its areal extent and its vertical hydrocarbon column.
<b>distillation</b>	A process by which components of a substance are separated by heat or refined by condensation from the resulting vapours.
<b>gross production capacity</b>	The total combined production capacity of the Company and the joint ventures and other entities in which the Company owns an equity interest.
<b>gross refining capacity</b>	The total combined refining capacity of the Company and the joint ventures and other entities in which the Company owns an equity interest.
<b>Hydrocarbons</b>	Crude oil and other hydrogen and carbon compounds in liquid or gaseous state.
<b>lifting costs</b>	Oil and gas operations (i) production related expenses; (ii) taxes other than income taxes (if applicable); and (iii) production related general and administrative expenses. Lifting costs exclude exploration, royalty, R&D and depreciation costs.
<b>liquids</b>	Crude oil, condensate and NGLs.
<b>LNG</b>	Liquefied natural gas.
<b>LPG</b>	Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as household fuel.
<b>MSC</b>	The average maximum number of barrels per day of crude oil that can be produced for one year during any future planning period, after taking into account all planned capital expenditures and maintenance, repair and operating costs, and after being given three months to make operational adjustments.

<b>MTBE</b>	Methyl tertiary butyl ether.
<b>net production capacity</b>	The Company's equity share of its gross production capacity, calculated by multiplying the gross production capacity of each facility in which the Company has an interest by the Company's percentage equity ownership in the entity that owns the facility.
<b>net refining capacity</b>	The Company's equity share of its gross refining capacity, calculated by multiplying the gross refining capacity of each refinery in which the Company has an interest by the Company's percentage equity ownership in the entity that owns the refinery.
<b>NGLs</b>	Natural gas liquids, which are liquid or liquefied hydrocarbons produced in the manufacture, purification and stabilisation of natural gas. For purposes of reserves, ethane is included in NGLs. For purposes of production, ethane is reported separately and excluded from NGLs.
<b>original reserves</b>	The sum of cumulative actual production and remaining proved reserves to be produced, each determined at the time of assessment. Also known as "initial reserves" or "estimated ultimate recovery".
<b>production costs</b>	The sum of operating costs (or lifting costs as defined by the Industry Consultant) and depreciation, reflecting both the erosion of asset value over time on an accounting basis and the cost of operating the business.
<b>proved reserves</b>	Those quantities of liquids and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.
<b>reserves life</b>	Calculated on a barrel of oil equivalent basis by dividing proved reserves as at a given year-end by production for that year.
<b>reserves replacement ratio</b>	The reserves added during a period divided by production for that period.
<b>throughput</b>	The volume of crude oil processed by a refinery and converted into intermediate and finished products.
<b>water cut</b>	Ratio of water produced compared to the volume of total liquids produced from an oil or gas well.

## 2. RISK FACTORS

*Prospective investors should carefully consider the information provided in this Prospectus, particularly the following risks prior to investing in the Shares. The occurrence of any such risks may materially and adversely affect the Company's business, financial position and results of operations, the trading price of the Shares and the Company's ability to pay dividends, which may cause investors to lose all or part of their investment. The Directors confirm that, to the best of their knowledge and belief, there are no material risks besides those mentioned in this Section that may affect investors' decisions to invest in the Shares as at the date of this Prospectus. However, the following risks, which are identified as material, do not necessarily comprise all the risks affecting the Company or associated with an investment in the Shares. There may be additional risks that the Company and Directors are currently not aware of, or that the Company and Directors currently believe are immaterial, which may in the future become material or affect the Company's business, financial position and results of operations or the market price of the Shares.*

*As a result of these and other risks, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company or the Directors expect, or at all. Investors should consider all forward-looking statements in this Prospectus in light of these explanations and should not place any reliance on forward-looking statements (see "Forecasts and Forward-Looking Statements" on page ix).*

*An investment in the Shares is appropriate only for those investors who are able to evaluate the risks and the benefits of such investment and who have sufficient resources to bear any loss resulting from such investment. Prospective investors who have doubts about which actions to take should refer to a financial adviser duly licensed by the CMA for advice about investing in the Shares.*

*The risks described below are not presented in order of priority based on their importance or expected effect on the Company.*

### 2.1 Risks Related to the Company's Operations

#### 2.1.1 Risks related to crude oil supply and demand

***The Company's results of operations and cash flow are significantly impacted by international crude oil supply and demand and the price at which it is able to sell crude oil.***

Sales of crude oil are the largest component of the Company's consolidated revenue and other income related to sales, accounting for 86.4%, 56.7% and 56.4% for the years ended 31 December 2016G, 2017G and 2018G, respectively, and 57.0% for the six months ended 30 June 2019G. Accordingly, the Company's results of operations and cash flow are significantly impacted by the price at which it is able to sell crude oil.

International crude oil supply and demand and the sales price for crude oil are affected by many factors that are beyond the Company's control, including:

- market expectations with respect to future supply of petroleum and petroleum products, demand and price changes, including future demand for petroleum products in Asia, which accounted for 37.2% of global refined product demand in 2018G and is expected to account for approximately 41.1% of global refined product demand in 2030G according to the Industry Consultant;
- global economic and political conditions and geopolitical events, including any that impact international trade (including trade routes);
- decisions regarding production levels by the Kingdom or other producing states (the Kingdom is a member country of OPEC) (see Section 4.14 (*Relationship with the Kingdom*));
- the development of new crude oil exploration, production and transportation methods or technological advancements in existing methods, including hydraulic fracturing or "fracking";
- capital investments of oil and gas companies relating to the exploration, development and production of crude oil reserves;
- the impact of climate change on the demand for, and price of, hydrocarbons (see Section 2.2.3 (*Risks related to climate change*));
- changes to environmental or other regulations or laws applicable to crude oil and related products or the energy industry (see Section 2.2.11 (*Risks related to environmental protection, health and safety laws and regulations*));

- prices of alternative energies, including renewable energy;
- the electrification of transportation, technological developments in the cost or endurance of fuel cells for electric vehicles and changes in transportation-mode preferences, including ride-sharing;
- weather conditions affecting supply and demand;
- fluctuations in the value of the U.S. Dollar, the currency in which crude oil is priced globally; and
- trading activities in the crude oil commodities market.

International crude oil prices have fluctuated significantly in the past and may remain volatile. Brent prices witnessed a significant decline between mid-2014G and early 2016G, with Brent prices declining from a monthly average of \$112.0 per barrel in June 2014G to a monthly average of \$31.9 per barrel in January 2016G. Since January 2016G, Brent prices have generally fluctuated between \$50.0 and \$75.0 per barrel. Most recently, the Brent price was at a monthly average of \$61.5 per barrel in September 2019G. For a discussion of liquids supply and demand balance, see Section 3.3 (*Liquids Supply-Demand Balance*).

Fluctuations in the price at which the Company is able to sell crude oil could cause the Company's results of operations and cash flow to vary significantly. In addition, decreases in the price at which the Company is able to sell its crude oil could have a material adverse effect on the Company's results of operations and cash flow.

### **2.1.2 Risks related to economic and political developments in Asia**

***The Company exports a substantial portion of its crude oil and refined products to customers in Asia, and adverse economic or political developments in Asia could impact the Company's results of operations.***

The Company exports a substantial portion of its crude oil and refined products to customers in Asia. In 2016G, 2017G and 2018G, customers in Asia, including the Company's affiliated refineries located in Asia, purchased 69%, 71% and 71%, respectively, of the Company's crude exports and 49%, 50% and 51% respectively, of the Company's total crude production. See Section 7.3.2 (*Upstream Liquid Sales*). In addition, the Company expects to export additional crude to Asia as new downstream assets in Asia commence operations. See Section 4.1.2 (*Downstream*).

The Company expects crude exports to customers in Asia to continue to constitute a significant percentage of its total export and production volumes. Furthermore, the refined, chemical and petrochemical products that are produced at the Company's joint ventures and international operations in Asia are generally sold locally and exported to other Asian countries. If there is a slowdown in economic growth, an economic downturn or recession or other adverse economic or political development in Asia, the Company may experience a material reduction in demand for its products by its customers located in that region. Moreover, any such development in other parts of the world (including political and social instability or armed conflict in the MENA region) may result in other producers supplying surplus capacity to Asia, thereby increasing competition for customers in Asia and affecting the prices at which the Company sells its products to customers there. Any decrease in demand for the Company's products in Asia could have a material adverse effect on its business, financial position and results of operations.

### **2.1.3 Risks related to competition**

***The Company operates in a highly competitive environment. Competitive pressure could have a material adverse impact on the price at which it sells crude oil and other products.***

The sale of crude oil outside the Kingdom is very competitive. The Company's primary competitors for the sale of crude oil outside the Kingdom include NOCs and IOCs, many of which have substantial crude oil reserves and financial resources. The primary factors driving competition are global crude oil supply and demand and the quality of the crude oil produced, which impacts the relative value of the crude oil to be used in the production of diesel, gasoline and other refined products.

Other factors that could affect competition in the crude oil marketplace include additional discoveries of crude oil reserves by the Company's competitors, the cost of shale and other unconventional production, new technologies that increase the viability of reserves or reduce production costs, political and economic factors and other factors outside of the Company's control. Increased competitive pressures could have a material adverse impact on prices at which the Company can sell crude oil and its regional and global market share.

In addition, the Company's refineries in its downstream segment are subject to competition in the geographies to which they sell refined products or petrochemicals. Competition is primarily from other refineries located in, or

in close proximity to, the relevant market, and in the case of refineries that are net importers, from other international producers. Operating efficiencies and production costs are the key factors affecting competition in the refined products and chemicals markets. Accordingly, if the operating efficiencies and production costs of the Company's refineries are not sufficiently competitive in the geographies they serve, the Company's business, financial position and results of operations could be materially and adversely impacted.

#### **2.1.4 Risks related to hydrocarbon reserves estimation**

***Estimates of proved hydrocarbon reserves depend on significant interpretations, assumptions and judgments. Any significant deviation or changes in existing economic and operating conditions could affect the estimated quantity and value of the Company's proved reserves.***

The Company's reserve estimates conform to the SPE-PRMS definitions and guidelines, which are the internationally recognised industry standards promulgated by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts and the European Association of Geoscientists and Engineers. Reserve estimation is an inherently complex process that principally relies on a combination of knowledge, experience and engineering judgment. The Company's and D&M's estimates of the quantity of the Company's proved hydrocarbon reserves depend on significant interpretations, assumptions and judgments relating to available geological, geophysical, engineering, contractual, economic and other information, and take into account existing economic and operating conditions and commercial viability as at the date the reserve estimates are made. See Section 4.1.1 (*Upstream*) for a discussion of the process utilised by the Company to estimate its reserves and the certification letter of D&M attached as Appendix C to this Prospectus for a description of the procedures, conclusions and assumptions utilised by D&M.

There can be no assurance that the interpretations, assumptions and judgments utilised by the Company to estimate proved reserves, or those utilised by D&M for the purposes of preparing its certification letter, will prove to be accurate. Any significant deviation from these interpretations, assumptions or judgments could materially affect the estimated quantity or value of the Company's proved reserves. In addition, these estimates could change due to new information from production or drilling activities, changes in economic factors, including changes in the price of hydrocarbons, changes to laws, regulations or the terms of the Concession or other events. Further, declining hydrocarbon prices may cause certain proved reserves to no longer be considered commercially viable, which could result in downward adjustments to the Company's estimates of the Company's proved reserves, impairment of the Company's assets or changes to the Company's capital expenditures and production plans. Moreover, proved reserves estimates are subject to change due to changes in published rules or changes in guidelines. Any material reduction in the quantity or value of the Company's proved reserves could affect the Company's business.

#### **2.1.5 Risks related to independent third party reserve certification letters**

***The independent third party certification letter does not cover the entirety of the Kingdom's estimated reserves.***

The Company retained independent petroleum consultants, D&M, to independently evaluate, as at 31 December 2018G, reservoirs the Company believes accounted for approximately 85% of the Company's proved oil reserves to which the Company has rights under the Concession and remain to be produced after 31 December 2018G but before 31 December 2077G (the end of the initial 40-year term of the Concession plus the first 20-year extension). The Company chose this scope because of the overall scale of the Kingdom's reserves and the concentration of deposits in the major reservoirs that were assessed. Further independent assessment of the Kingdom's smaller reservoirs would have taken several years to complete. D&M's reserves estimation of 209.1 billion barrels of oil equivalent reserves for the reservoirs it evaluated was within 1% of the Company's internal estimation for the same reservoirs for the same Concession time period.

There is no independent third party certification letter with respect to the balance of the Kingdom's proved oil equivalent reserves or as at a more recent date than 31 December 2018G. See Section 11 (*Statements by Experts*). Any material deviation in the quantity of proved reserves could have a material adverse effect on the Company's financial position.

### 2.1.6 *Risks related to operational risks and hazards*

***The Company is subject to operational risks and hazards that may have a significant impact on its operations or result in significant liabilities and costs.***

The Company is subject to operational risks common in the oil and gas industry, including:

- crude oil or gas spills, pipeline leaks and ruptures, storage tank leaks, and accidents involving explosions, fires, blow outs and surface cratering;
- power shortages or failures;
- mechanical or equipment failures;
- transportation interruptions and accidents;
- tropical monsoons, storms, floods and other natural disasters; and
- chemical spills, discharges or releases of toxic or hazardous substances or gases.

These risks could result in damage to, or destruction of, the Company's properties and facilities, death or injury to people and harm to the environment, which could have a significant impact on the Company's operations or result in significant liabilities and remediation costs. In addition, the Company is not insured against all risks and insurance in connection with certain risks and hazards may not be available. See Section 2.1.7 (*Risks related to insufficient insurance*). To the extent a subcontractor was responsible for the damage, the Company's recourse to the relevant subcontractor may be limited by contract or the financial viability of such subcontractor. Such occurrences could also interrupt the Company's operations, delay Company projects or damage the Company's reputation, which could have a material adverse effect on its business. For example, in April 2019G a fire occurred at the PRefChem integrated refinery and petrochemicals complex, which has delayed the expected commissioning of the facility from the end of 2019G until the second half of 2020G.

Furthermore, the majority of the Company's assets are located in the Kingdom and it relies heavily on a cross-country pipeline system and terminal facilities to transport crude oil and products through the Kingdom. The Company also depends on critical assets to process its crude oil, such as the Abqaiq facility, which is the Company's largest oil processing facility and processed approximately 50% of the Company's crude oil production for the year ended 31 December 2018G. The East-West pipeline, the Shaybah NGL facility, the Abqaiq facility and the Khurais processing facility have recently been subject to attacks. If the Company's critical transport systems or processing facilities were subject to a disruption, it could have a material adverse effect on the Company's business, financial position and results of operations. See Section 2.2.5 (*Risks related to terrorism and armed conflict*).

### 2.1.7 *Risks related to insufficient insurance*

***The Company could be subject to losses from risks related to insufficient insurance.***

The Company insures against risk primarily by self-insuring through its captive insurance subsidiary, Stellar, which provides insurance exclusively to the Company. The Company also obtains insurance in certain areas from third party providers in excess of the coverage provided through Stellar. For more information, see Section 13.7 (*Insurance Policies*).

The Company does not insure against all risks and its insurance may not protect it against liability from all potential events, particularly catastrophic events such as major crude oil spills, environmental disasters, terrorist attacks or acts of war. In addition, the Company does not maintain business interruption insurance for disruptions to its operations and certain of the Company's operations are insured separately from the rest of the Company's business. Furthermore, there can be no assurance that the Company can continue to renew its existing levels of coverage on commercially acceptable terms, or at all. As a result, the Company could incur significant losses from uninsured risks or risks for which its insurance does not cover the entire loss. Any such losses could have a material adverse effect on the Company's business, financial position and results of operations.

### 2.1.8 *Risks related to achieving growth objectives*

***The Company's ability to achieve its strategic growth objectives depends on the successful delivery of current and future projects.***

The Company's ability to achieve its strategic growth objectives depends, in large part, on the successful, timely and cost effective delivery of capital projects, especially those which are large and complex, which are carried out

by the Company or by the Company along with joint venture or affiliate partners. The Company faces numerous challenges in developing such projects, including:

- constraints on the availability and cost of skilled labour, contractors, materials, equipment and facilities, particularly during periods of global expansion in the oil and gas or chemicals industry;
- its ability to obtain funding necessary for the implementation of the relevant project on terms acceptable to it, or at all;
- fluctuations in the market prices for hydrocarbons, which may impact its ability to finance its projects from its cash flow from operating activities;
- difficulties in obtaining necessary permits, complying with applicable regulations and changes to applicable law or regulations;
- difficulties coordinating multiple contractors and sub-contractors involved in complex projects;
- making economic estimates or assumptions based on data or conditions, including crude oil and gas price assumptions, which may change; and
- undertaking projects or ventures in new lines of business in which the Company has limited or no prior operating experience.

These challenges have led and could lead to delays in the completion of projects and increased project costs. For example, completion of one of the Company's recent downstream projects and one of its recent upstream projects was delayed due to certain of the factors listed above. If projects are delayed, cost more than expected or do not generate the expected return, the Company's operations and expected levels of production could be impacted. These occurrences could result in the Company reviewing and recognising impairments on its projects, assuming liabilities of joint venture or affiliate partners or other consequences, any of which could have a material adverse effect on the Company's business, financial position and results of operations.

In addition, many of the Company's projects require significant capital expenditures. The Company's capital expenditures were SAR 103.3 billion, SAR 122.0 billion, SAR 131.8 billion (\$35.1 billion) for the years ended 31 December 2016G, 2017G and 2018G, respectively, and SAR 61.7 billion and SAR 54.3 billion (\$14.5 billion) for the six months ended 30 June 2018G and 2019G, respectively. See Section 7.8.3 (*Capital Expenditures*). If cash flow from operating activities and funds from external financial resources are not sufficient to cover the Company's capital expenditure requirements, the Company may be required to reallocate available capital among its projects or modify its capital expenditure plans, which may result in delays to, or cancellation of, certain projects or deferral of certain capital expenditures. Any change to the Company's capital expenditure plans could, in turn, have a material adverse effect on the Company's growth objectives and its business, financial position and results of operations.

#### 2.1.9 *Risks related to litigation*

***The Company has been subject to litigation in the past and may be again in the future.***

The Company has been subject to significant litigation, primarily in the United States and the Kingdom. Some of the most significant U.S. litigation involved allegations of violations of antitrust laws arising, in part, from the Kingdom's membership and participation in OPEC. Such antitrust litigation sought extensive relief, including treble damages, divestiture of assets in the United States and disgorgement of profits. If granted, this relief could have had a material adverse impact on the Company. To date, the OPEC-related antitrust lawsuits have been dismissed on the basis of various sovereign defences under U.S. law, including the political question and the act of state doctrines, sovereign immunity under the FSIA and other legal defences. However, there is no assurance that the Company will prevail in its assertion of these defences in the future and any adverse judgment or settlement could have an adverse effect on the Company's business, financial position and results of operations.

In February 2019G, members of the U.S. House of Representatives introduced a bill that seeks to make unlawful certain conduct by foreign states, state instrumentalities and state agents, such as taking action collectively to reduce the production of oil. The draft bill would expressly remove or weaken certain sovereign defences, including sovereign immunity under the FSIA. If this or any other legislation affecting the Company's legal liability were to become law and result in litigation against the Company, such litigation, including any adverse judgement or settlement, could have a material adverse effect on the Company's business, financial position and results of operations.

In addition, increasing attention on climate change risks may result in an increased possibility of litigation against the Company and its affiliated companies. Claims relating to climate change matters have been filed against companies in the oil and gas industry by private parties, shareholders of such companies, public interest organisations, cities and other localities, especially in the United States, including claims that the extraction and development of fossil fuels has increased climate change. Some of these claims demand that the defendants pay financial amounts as compensation for alleged past and future damages resulting from climate change. On 2 July 2018G, Motiva, the Company's refining subsidiary in the United States, was named as a defendant in such a claim brought by the State of Rhode Island against multiple companies in the oil and gas industry. Claims such as these could grow in number and the Company could be the subject of similar claims in the United States or elsewhere in the future.

Further, investors that purchase Shares in this Offer or in the subsequent trading market could assert claims against the Company and its Directors and Senior Executives alleging breaches of applicable laws and regulations, or other legal theories.

Litigation in a variety of jurisdictions could result in substantial costs (including civil or criminal penalties, or both, damages or the imposition of import trade measures), require the Company to devote substantial resources and divert management attention, which may have a material adverse effect on the Company's business, financial position and results of operations. For further details on litigation, see Section 13.12 (*Litigation*).

#### **2.1.10 Risks related to the comparability of financial periods presented**

***The Company's historical results of operations may not be easily compared from year to year.***

The Government has recently adopted several changes to the fiscal regime under which the Company operates (see Section 7.3.6 (*Fiscal Regime Changes*)). In addition, the Company completed a transaction to separate the assets, liabilities and businesses of its former Motiva joint venture with Shell and transferred certain assets and liabilities to a wholly owned subsidiary of the Company, which led to the results of operations of the portion of the Motiva business that was transferred to the Company being consolidated into the Company's financial statements from 1 May 2017G instead of being accounted for using the equity method, as was the case for the Company's interest in the prior Motiva joint venture for prior periods. See Note 30(a)(i) to the 2017G Financial Statements and Note 31(a) to the 2018G Financial Statements.

These changes materially impact the Company's results of operations and make the Company's consolidated financial statements for certain periods presented less comparable, particularly with respect to revenue, production royalties and excise and other taxes and income tax. The inability of a purchaser of Shares to compare the Company's financial results in the periods presented could make determining the value of the Shares difficult. For a more detailed discussion of the fiscal regime changes and corporate events described above and their effect on the Company's consolidated financial statements, see Sections 7.3.5 (*Investments and Acquisitions in Expansion of Downstream Segment*) and 7.3.6 (*Fiscal Regime Changes*).

#### **2.1.11 Risks related to acquisitions**

***The Company may not realise some or all of the expected benefits of recent or future acquisitions, including with respect to SABIC.***

The Company has engaged in and may continue to engage in acquisitions of businesses, technologies, services, products and other assets from time to time. Any such acquisition entails various risks, including that the Company may not be able to accurately assess the value, strengths and weaknesses of the acquisition or investment targets, effectively integrate the purchased businesses or assets, achieve the expected synergies or recover the purchase costs of the acquired businesses or assets. The Company may also incur unanticipated costs or assume unexpected liabilities and losses in connection with any business or asset it acquires, including in relation to the retention of key employees, legal contingencies (such as, contractual, financial, regulatory, environmental or other obligations and liabilities) and risks related to the acquired business, and the maintenance and integration of procedures, controls and quality standards. These difficulties could impact the Company's ongoing business, distract its management and employees and increase its expenses which could, in turn, have a material adverse effect on the Company's business, financial position and results of operations.

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. Closing of the proposed acquisition is subject to customary closing conditions and is currently expected to occur in the first half of 2020G. For the acquisition to be successful for the Company, the Company will need to manage its ownership stake in SABIC in a manner



which will support the optimisation of SABIC's performance, including with respect to the technology capabilities, sales and marketing platforms and technical and support functions of each company. The realisation of such benefits may be affected by a number of factors, many of which are beyond the Company's control. Failure to realise all of the anticipated benefits of the acquisition may impact the Company's financial performance and prospects, including the growth of its downstream business.

Immediately following the closing of the acquisition of the PIF's 70% equity interest in SABIC, the Company could exceed its targeted Gearing ratio. While the Company intends to maintain its Gearing ratio to within its targeted range of 5% to 15%, there can be no assurance that it will be able to do so. Failure to lower the Gearing ratio may impact the Company's financial performance and its results of operations.

In addition, the shareholding of SABIC will require significant management attention. The diversion of management's attention and any delays or difficulties encountered in connection with SABIC's operations could have a material adverse effect on the Company's business, financial position and results of operations.

Furthermore, the Company will fund a portion of the purchase price of its interests in SABIC with promissory notes issued by the Company in favour of the PIF. The promissory notes are fully transferable and assignable and may be pledged by the PIF, subject to the Company's right of first refusal to purchase the promissory notes if the PIF receives any offer or commitment of financing which would include a transfer of the promissory notes. The PIF could receive an offer or commitment of financing at any time.

Following the proposed acquisition, SABIC is expected to remain a listed company on Tadawul and its board of directors will continue to owe duties to its minority shareholders. The interests of SABIC's minority shareholders may not align with those of the Company. For further information on the Company's proposed acquisition of the equity interest in SABIC, see Section 4.2.1 (*Acquisition of 70% equity interest in SABIC*).

#### **2.1.12 Risks related to foreign operations**

***The Company is exposed to risks related to operating in several countries.***

A substantial portion of the Company's downstream operations is conducted outside the Kingdom. In 2017G and 2018G, 37% and 42%, respectively, of the total volume of the Company's refined products on a consolidated basis were produced outside the Kingdom. Risks inherent in operating in several countries include:

- complying with, and managing changes to and developments in, a variety of laws and regulations, including price regulations and data privacy, changes in environmental regulations, forced divestment of assets, expropriation of property, cancellation or forced renegotiation of contract rights;
- complying with tax regimes in multiple jurisdictions, the imposition of new or increased withholding or other taxes or royalties on the Company's income;
- the imposition of new, or changes to existing, transfer pricing regulations or the imposition of new restrictions on foreign trade or investment;
- adverse changes in economic and trade sanctions, export controls and national security measures resulting in business disruptions, including delays or denials of import or export licences or blocked or rejected financial transactions;
- conducting business through a number of subsidiaries, joint operations and joint ventures and challenges implementing the Company's policies and procedures in such entities; and
- fluctuations in foreign currency exchange rates.

Operating in several countries also requires significant management attention and resources. The occurrence of any of these risks may be burdensome and could have a material adverse effect on the Company's business, financial position and results of operations.

#### **2.1.13 Risks related to sanctions and anti-bribery and anti-corruption regimes**

***Violations of applicable sanctions and trade restrictions, as well as anti-bribery and anti-corruption laws, could adversely affect the Company.***

The Company currently conducts business, and could in the future decide to take part in new business activities, in locations where certain parties are subject to sanctions and trade restrictions imposed by the United States, the European Union and other sanctioning bodies. Laws and regulations governing sanctions and trade restrictions are complex and are subject to change. The Company is currently pursuing investment and joint venture opportunities

in oil and gas and LNG projects located in Russia and with Russian counterparties. Certain Russian individuals and entities are subject to a number of sanctions and trade restrictions imposed by the United States and the European Union targeting the Russian financial, defence and energy sectors.

There can be no assurance that the Company's corporate governance and compliance policies (including with respect to sanctions and trade restrictions, anti-bribery and anti-corruption) will protect it from improper conduct of its employees or business partners. If the Company were to be sanctioned in the future, as a result of its transactions with other parties or otherwise, such sanctions could result in asset freezes against the Company, restrictions on investors trading securities issued by the Company, substantial civil or criminal penalties, or both, and could have a material adverse effect on the Company's business and financial position.

#### ***2.1.14 Risks related to chemicals and plastics regulations***

***Increased concerns regarding the safe use of chemicals and plastics and their potential impact on the environment have resulted in more restrictive regulations and could lead to new regulations.***

Concerns regarding chemicals and plastics, including their safe use and potential impact on the environment, reflect a growing trend in societal demands for increasing levels of product safety, environmental protection and recycling. These concerns have led to more restrictive regulations and could lead to new regulations. They could also manifest themselves in shareholder proposals, delays or failures in obtaining or retaining regulatory approvals, increased costs related to complying with more restrictive regulations, delayed product launches, lack of market acceptance, lower sales volumes or discontinuance of chemicals or plastics products, continued pressure for more stringent regulatory intervention and increased litigation. These consequences could also have an adverse effect on the Company's business, financial position, results of operations and reputation.

#### ***2.1.15 Risks related to dependence on senior management and key personnel***

***The Company is dependent on Senior Management and key personnel.***

The Company operates in a competitive environment, and its success depends upon its ability to identify, hire, develop, motivate and retain highly-qualified Senior Management and key personnel. The Company's Senior Management and key personnel may voluntarily terminate their employment with the Company or leave their positions due to reasons beyond the Company's control. In addition, from time to time, certain members of the Company's Senior Management have resigned from their position at the Company in order to accept employment in various positions in the Government. In addition, there is an international shortage of experienced and skilled oil and gas professionals and the Company may have difficulty hiring and retaining such individuals with the desired expertise or experience. If the Company experiences a large number of retirements or departures of its oil and gas experts in a relatively short period of time, attracting and retaining a sufficient number of replacement personnel may be challenging. If the Company is unable to hire and retain Senior Management and key personnel with requisite skills and expertise, it could have a material adverse effect on the Company's business, financial position and results of operations.

#### ***2.1.16 Risks related to managing a public company***

***The Company's management team has limited experience managing a public company.***

The Company's management team has limited experience managing a public company, interacting with investors and complying with the increasingly complex laws, regulations and other obligations pertaining to public companies. After this Offering, the Company will be subject to significant regulatory oversight and reporting obligations under CMA rules, securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from the Company's Senior Management and could divert their attention from the day-to-day management of the Company's business. In addition, failure to comply in a timely manner with the regulations and disclosure requirements imposed on listed companies will expose the Company to regulatory sanctions and fines. Any of these impacts could have a material adverse effect on the Company's business, financial position or results of operations.

#### ***2.1.17 Risks related to IT systems***

***The Company's operations are dependent on the reliability and security of its IT systems.***

The Company relies on the security of critical information and operational technology systems for, among other things, the exploration, development, production, storage and distribution of hydrocarbons; the processing, use and security of financial records, proprietary information, intellectual property, personal information and

operating data; and communications with management, personnel and business partners. Cyber incidents may negatively impact these or other functions and, particularly in relation to industrial control systems, may result in physical damage, injury or loss of life and environmental harm. The Company's systems are a high profile target for sophisticated cyberattacks by nation states, criminal hackers and competitors, and the Company routinely fends off malicious attempts to gain unauthorised systems access. However, there is a risk that determined attackers with access to the necessary resources could successfully penetrate Company systems. Attempts to gain unauthorised access to Company networks have been successful in the past, including a 2012G cyberattack in which the Company resorted to manual procedures for certain non-operational related matters while the breach was contained. To date, none of these attempts have been material to the Company's financial performance or reputation. Nonetheless, the nature and breadth of any potential future cyberattack remain unknown and could result in significant costs, including investigation and remediation expenses, regulatory scrutiny, legal liability and the loss of personal or sensitive business or third party information, and could have a material adverse effect on the Company's operations and reputation. For further information on the Company's cybersecurity, see Section 4.12 (*IT and Cybersecurity*).

## **2.2 Risks Related to the Company's Industry and Regulatory Environment**

### **2.2.1 Risks related to Government-set maximum level of crude oil production and target MSC**

#### ***The Government determines the Kingdom's maximum level of crude oil production and target MSC.***

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative. Accordingly, the Government may in its sole discretion increase or decrease the Kingdom's maximum crude oil production at any time based on its sovereign energy security goals or for any other reason, which may be influenced by, among other things, global economic and political conditions and their corresponding impact on the Kingdom's policy and strategic decisions with respect to exploration, development and production of crude oil reserves.

In addition, in order to facilitate rapid changes in production volumes, the Government requires the Company to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law. The Government has the exclusive authority to set MSC. MSC refers to the average maximum number of barrels per day of crude oil that can be produced for one year during any future planning period, after taking into account all planned capital expenditures and maintenance, repair and operating costs, and after being given three months to make operational adjustments. The Company incurs substantial costs to maintain MSC and has historically utilised a significant amount of this spare capacity. However, there can be no assurance that it will utilise spare capacity in the future. In addition, the Government has decided in the past and may in the future decide to increase target MSC. As at 30 June 2019G, the Company's MSC was 12.0 million barrels of crude oil per day.

The Government's decisions regarding crude oil production and spare capacity, and the Company's costs of complying with such decisions, may not maximise returns for the Company. For example, the Company may be precluded from producing more crude oil in response to either a decrease or increase in prices, which may limit its ability to generate additional revenue or to increase its production of downstream products. In addition, a decision to increase the Kingdom's MSC could require the Company to make significant capital expenditures to build new infrastructure and facilities. Any of these actions could have a material adverse effect on the Company's business, financial position and results of operations.

### **2.2.2 Risks related to the Kingdom's public finances and the hydrocarbon industry**

#### ***The Kingdom's public finances are highly connected to the hydrocarbon industry.***

The hydrocarbon industry is the single largest contributor to the Kingdom's economy. The oil sector accounted for 44.0% and 43.0% of the Kingdom's real GDP in the years ended 31 December 2016G and 2017G, respectively (the most recent years for which information is available). Furthermore, the oil sector accounted for 64.2% and 63.0% of the Government's total revenues in the years ended 31 December 2016G and 2017G, respectively (the most recent years for which information is available). The Government is expected to continue to rely on royalties, taxes and other income from the hydrocarbon industry for a significant portion of its revenue. Any change in crude oil, condensate, NGL, oil product, chemical and natural gas prices or other occurrences that negatively affect the Company's results of operations could materially affect the macroeconomic indicators of the Kingdom, including GDP, balance of payments and foreign trade and the amount of cash available to the Government.

Changes made to the Kingdom's tax regime for hydrocarbon producers and the royalty rate to which the Company is subject, which became effective on 1 January 2017G, seek to align the fiscal regime to which the Company is subject with tax and royalty rates that are customary in other hydrocarbon producing jurisdictions. In addition, effective 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of selling crude oil and certain refined products in the Kingdom at regulated prices, which further impacts the Kingdom's cash flow. Effective 1 January 2020G, the marginal royalty rates applicable to crude oil and condensate production will be modified, the tax rate applicable to the Company's downstream business will be reduced and the Government will expand the equalisation mechanism to include LPGs and certain other products. Moreover, effective 1 January 2017G, the Government guaranteed amounts due to the Company with respect to hydrocarbon products sales from various Government and semi-Government entities, and separate legal entities in which the Government has share ownership or control. See Section 7.3.6 (*Fiscal Regime Changes*). In 2016G, 2017G and 2018G, the Government issued \$18 billion, \$22 billion and \$13 billion, respectively, in the international capital and sukuk markets to fund its budget. A shortfall in funding to the Government or a decision to seek more revenue from hydrocarbons may lead the Government to change the fiscal regime to which hydrocarbon producers in the Kingdom, including the Company, are subject. Any such change could have a material adverse effect on the Company's business, financial position and results of operations.

### **2.2.3 Risks related to climate change**

***Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause the Company to incur costs or invest additional capital.***

Climate change concerns manifested in public sentiment, government policies, laws and regulations, international agreements and treaties and other actions may reduce global demand for hydrocarbons and propel a shift to lower carbon intensity fossil fuels such as gas or alternative energy sources. In particular, increasing pressure on governments to reduce GHG emissions has led to a variety of actions that aim to reduce the use of fossil fuels, including, among others, carbon emission cap and trade regimes, carbon taxes, increased energy efficiency standards and incentives and mandates for renewable energy and other alternative energy sources. In addition, international agreements that aim to limit or reduce GHG emissions are currently in various stages of implementation. For example, the Paris Agreement became effective in November 2016G, and many of the countries that have ratified the Paris Agreement are adopting domestic measures to meet its goals, which include reducing their use of fossil fuels and increasing their use of alternative energy sources. The landscape of GHG-related laws and regulations has been in a state of constant re-assessment and, in some cases, it is difficult to predict with certainty the ultimate impact GHG-related laws, regulations and international agreements will have on the Company. In some of the areas in which the Company operates such as the Netherlands, GHG emissions are regulated by the European Union Emissions Trading Scheme. In the future, areas in which the Company operates that are not currently subject to GHG regulation may become regulated and existing GHG regulations may become more stringent. See Section 4.13.2 (*Environment*).

Existing and future climate change concerns and impacts, including physical impacts to infrastructure, and related laws, regulations, treaties, protocols, policies and other actions could shift demand to other fuels, reduce demand for hydrocarbons and hydrocarbon-based products, have a material adverse effect on the Company's business, financial position and results of operations.

### **2.2.4 Risks related to political and social instability in the MENA region**

***Political and social instability and unrest and actual or potential armed conflicts in the MENA region and other areas may affect the Company's results of operations and financial position.***

The Company is headquartered and conducts much of its business in the MENA region. The MENA region is strategically important geopolitically and has been subject to political and security concerns and social unrest, especially in recent years. For example, since 2011G, a number of countries in the MENA region have witnessed significant social unrest, including widespread public demonstrations, and, in certain cases, armed conflict, terrorist attacks, diplomatic disputes, foreign military intervention and a change of government. Armed conflict is currently ongoing in Yemen, Iraq, Syria and Libya. Such social unrest and other political and security concerns may not abate, may worsen and could spread to additional countries. Some of the Company's facilities, infrastructure and reserves are located near the borders of countries that have been or may be impacted. No assurance can be given that these political or security concerns or social unrest will not have a material adverse effect on the Company's business, financial position and results of operations.

In addition, the majority of the Company's crude oil production is exported using international supply routes. In particular, the Strait of Hormuz and the Suez Canal are key shipping routes for the Company's crude oil and are located in areas subject to political or armed conflict from time to time. For example, in May 2019G, four oil tankers, including two owned by the Saudi National Shipping Company-Bahri, were sabotaged near the Strait of Hormuz and, in July 2019G, a British oil tanker was seized by Iranian forces in the Strait of Hormuz. In addition, in April and July 2018G, Yemen's Houthi group attacked tankers operated by the Saudi National Shipping Company-Bahri off the coast of Yemen. Any political or armed conflict or other event, including those described above, that impacts the Company's use of the Strait of Hormuz, Suez Canal or other international shipping routes could have a material adverse effect on the Company's business, financial position and results of operations.

Moreover, the majority of the Company's assets and operations are located in the Kingdom and, accordingly, may be affected by the political, social and economic conditions from time to time prevailing in or affecting the Kingdom or the wider MENA region. Any unexpected changes in political, social or economic conditions may have a material adverse effect on the Company, which could in turn have a material adverse effect on the Company's business, financial position and results of operations or investments that the Company has made or may make in the future.

Furthermore, any of the events described above may contribute to instability in the MENA region and may have a material adverse effect on investors' willingness to invest in the Kingdom or companies that are based in the Kingdom, including in the Shares.

#### **2.2.5 Risks related to terrorism and armed conflict**

***Terrorism and armed conflict may materially and adversely affect the Company and the market price of the Shares.***

The Company's facilities have been targeted by terrorist and other attacks. Most recently, in September 2019G, the Abqaiq facility and the Khurais processing facility were subject to attack by unmanned aerial vehicles and missiles. Abqaiq is the Company's largest oil processing facility and currently processes approximately 50% of the Company's crude oil. The Khurais field is one of the Company's principal oil fields and as at 31 December 2018G the MSC at Khurais was 1.450 million barrels of crude oil per day. These attacks resulted in the temporary suspension of processing at Abqaiq and Khurais. As a result, overall crude oil production and associated gas production was reduced and the Company took a number of actions to minimise the impact of lower Arabian Light and Arabian Extra Light production by tapping into the Company's inventories located outside of the Kingdom and swapping grades of deliveries to Arabian Medium and Arabian Heavy.

In addition, in May 2019G and in August 2019G, the East-West pipeline and the Shaybah field, respectively, were targeted by unmanned aerial vehicle attacks. These attacks resulted in fires and damage to the processing and cogeneration infrastructure at the Shaybah NGL facility. The Company's preliminary estimate of the costs to repair the Shaybah NGL facility is approximately \$28 million. Furthermore, since 2017G, areas of the Kingdom have been subject to ballistic missile and other aerial attacks from Yemen, including areas of the Kingdom where the Company has facilities or operations. Any additional terrorist or other attacks could have a material adverse effect on the Company's business, financial position and results of operations, could cause the Company to expend significant funds and could impact investors' willingness to invest in the Shares. For more information, see Section 4.3 (*Recent Developments*).

#### **2.2.6 Risks related to Government-directed projects**

***The Government may direct the Company to undertake projects or provide assistance for initiatives outside the Company's core business, which may not be consistent with the Company's immediate commercial objectives or profit maximisation.***

The Government has directed, and may in the future direct, the Company to undertake projects or provide assistance for initiatives outside the Company's core business in furtherance of the Government's macroeconomic, social or other objectives, leveraging the Company's know-how, resources and operational capabilities. For instance, the Government has previously directed the Company to develop and construct large infrastructure projects and provide management, logistical and other technical assistance for certain Government initiatives. See Section 13.9.3.7 (*Corporate Citizenship*). Prior to 2017G, the Government reimbursed the Company for its costs incurred relating to such Government-directed activities by allowing the Company to reduce its tax liability or, in some cases, its taxable income by the amount of costs incurred. Beginning on 24 December 2017G, the Concession requires that all Company contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise shall be on a commercial basis and on 5 September 2019G, the Company and the Government entered

into a framework agreement to govern the furnishing of services by the Company to the Government. See Section 13.9 (*Related Party Contracts and Transactions*). While these projects and initiatives have generally been of national importance to the Kingdom and in the Company's long-term commercial interests, they have often been outside of the Company's core businesses and have not always been consistent with its immediate commercial objectives or profit maximisation. If the Government directs the Company to undertake future projects other than on a commercial basis, the Company's financial position and results of operation may be materially and adversely affected.

#### **2.2.7 Risks related to the regulation of the oil and gas industry**

***The Company operates in a regulated industry and its business may be affected by regulatory changes.***

The oil and gas industry in the Kingdom is a regulated industry. See Sections 4.14.2 (*The Concession*) and 5 (*Regulation of the Oil and Gas Industry in the Kingdom*) for a description of the regulations and royal decrees that apply to the Company in the Kingdom and a description of the Concession. Any change in the Kingdom to the laws, regulations, policies or practices relating to the oil and gas industry could have a material adverse effect on the Company's business, financial position and results of operations. In addition, although the Concession provides for an initial period of 40 years, which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices (and may be amended and extended for an additional 40 years thereafter subject to the Company and the Government agreeing on the terms of the extension), there is no assurance that the Government will not revoke the Concession in whole or in part or adversely change the Company's rights in respect of the Concession, which would have a significant effect on the Company's business, financial position and results of operations. Furthermore, if the Kingdom were to take additional actions under its regulatory powers or change laws, regulations, policies or practices relating to the oil and gas industry, the Company's business, financial position and results of operations could be materially and adversely affected.

#### **2.2.8 Risks related to equalisation compensation**

***The mechanism for equalisation compensation the Company receives from the Government in respect of domestic sales of certain hydrocarbons may be changed.***

The Concession requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPGs through domestic production or imports. In addition, pursuant to the Kingdom's regulatory regime, the Company is required to sell crude oil and certain refined products to third parties in the Kingdom at the Government's regulated prices. The regulated prices for these products have historically generated less revenue for the Company than if the same products had been sold for export.

Effective 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of selling these products in the Kingdom at regulated prices. Under this mechanism, the Company receives compensation for the difference between regulated prices and equalisation prices (which are determined using reported regional prices) in respect of such sales. See Sections 5.4 (*Regulated Domestic Pricing of Certain Hydrocarbons*) and 7.3.6 (*Fiscal Regime Changes*).

Furthermore, in the Kingdom, natural gas prices are regulated by the Government and the price that domestic customers pay is traditionally set by the Council of Ministers. Effective 17 September 2019G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of selling Regulated Gas Products in the Kingdom at Domestic Prices, in the event that the Council of Ministers and the Ministry of Energy do not adjust the Domestic Prices to meet the pricing of the gas projects in order to ensure the Company receives a commercial rate of return on each project. Under this mechanism, the Company receives compensation for the difference between Domestic Prices and Blended Prices in respect of such sales. See Sections 5.4.3 (*Gas Pricing*) and 7.3.6 (*Fiscal Regime Changes*).

No assurance can be given that either equalisation mechanism will not be revoked or amended on terms less favourable to the Company than the existing regime. In addition, in the event that the equalisation price is less than the regulated price, in the case of liquids, or the Blended Price is less than the Domestic Price, in the case of natural gas, the difference would be due from the Company to the Government. Any such event could have a material adverse effect on the Company's earnings, cash flow, financial position and results of operations.

**2.2.9 Risks related to the Company's failure to consolidate its downstream business as a condition of the Government allowing the general corporate tax rate to apply to the Company's downstream business**

***The Company is required to consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries of the Company within a certain time period as a condition of the Government allowing the general corporate tax rate to apply to the Company's downstream business.***

Effective 1 January 2020G, the tax rate applicable to the Company's downstream business will be, for a five-year period, the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law, rather than the 50% to 85% multi-tiered structure of income tax rates that applies to domestic oil and hydrocarbon production companies. In order for the general corporate tax rate to apply to the Company's downstream business, the Company will be required to consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024G. If the Company does not comply in so consolidating its downstream business within this five-year period, the Company's downstream business will be taxed retroactively on an annual basis for such five-year period in accordance with the multi-tiered tax rates applicable to domestic oil and hydrocarbon production companies. In such case, the Company will be required to pay the difference in taxes due to the Government, which could adversely affect its financial condition. See Section 7.3.6 (*Fiscal Regime Changes*).

**2.2.10 Risks related to licences, permits and approvals**

***The Company is required to obtain, maintain and renew governmental licences, permits and approvals in order to operate its businesses.***

The rights granted to the Company under the Concession represent the Company's licences, permits, and approvals necessary to conduct business in the Kingdom with respect to Hydrocarbons operations and related activities. However, the Company is required to obtain and renew any licence, permit, or approval that is required under the Hydrocarbons Law, GSPR or with respect to certain other activities unrelated to Hydrocarbons operations. See Sections 4.14.2 (*The Concession*) and 5 (*Regulation of the Oil and Gas Industry in the Kingdom*). There can be no assurance that the relevant authorities will issue any such licences, permits or approvals in the time frame anticipated by the Company, or at all. Any failure to renew, maintain or obtain the required permits and approvals, or the revocation or termination of existing licences, permits and approvals, may interrupt the Company's operations and could have a material adverse effect on the Company's business, financial position and results of operations.

**2.2.11 Risks related to environmental protection, health and safety laws and regulations**

***The Company's operations are subject to extensive environmental protection, health and safety laws and regulations.***

The Company's operations are subject to extensive laws and regulations relating to environmental protection, health and safety. These laws and regulations govern, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials, the emission and discharge of hazardous materials, groundwater use and contamination and the health and safety of the Company's employees and the communities in which it operates. Compliance with these obligations can result in significant expenditures. If the Company fails to comply with applicable laws and regulations, it could be subject to fines or the partial or total shutdown of related operations. The Company has, from time to time, shutdown certain facilities in order to ensure compliance with applicable laws and regulations. In addition, a stricter interpretation of existing laws and regulations, any changes in these laws and regulations or the enactment of new laws and regulations may impose new obligations on the Company or otherwise adversely affect the Company's business, financial position and results of operations. See Section 4.13 (*Health, Safety and Environment*).

The Company may also (i) incur significant costs associated with the investigation, clean up and restoration of contaminated land, water or ecosystems, as well as claims for damage to property, and (ii) face claims of death or injury to persons resulting from exposure to hazardous materials or adverse impacts on natural resources and properties of others resulting from its operations (including potentially from the transportation of hazardous substances and products, feedstock or chemical pollution). Any such costs or liabilities could have a material adverse effect on the Company's business, financial position and results of operations. In particular, in the United States, Motiva and other companies in the petroleum refining and marketing industry historically used MTBE as a gasoline additive. Motiva is a party to pending lawsuits concerning alleged environmental impacts associated with historic releases of MTBE in the United States, many of which involve other petroleum marketers and refiners. Plaintiffs in these MTBE lawsuits generally seek to spread liability among large groups of oil companies

and seek substantial damages. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. Motiva could be subject to material liabilities relating to MTBE claims.

#### **2.2.12 Risks related to international trade litigation, disputes or agreements**

***The Company may be affected by international trade litigation, disputes or agreements.***

Exports of crude oil, refined products and petrochemicals by the Company or its affiliates to foreign countries may be affected by litigation, disputes or agreements that lead to the imposition of import trade measures, including anti-dumping and countervailing duties, safeguard measures, import licensing and customs requirements. The possibility and effect of any such measures will depend on the laws governing the foreign country to which the applicable products are being exported and applicable international trade agreements. Since the majority of the Company's products are exported, any such measures may have a material adverse effect on the Company's business, financial position and results of operations.

In addition, the Kingdom is a party to international trade agreements, such as World Trade Organisation agreements that include commitments by the Kingdom with respect to the composition of its laws, regulations and practices that impact international trade. The Kingdom may become a party to other such agreements in the future. Compliance by the Kingdom with any such commitments may directly or indirectly impact the Company and could cause it to alter its operations in a manner that is costly or otherwise has a material adverse effect on its business, financial position or results of operations. If the Kingdom fails to comply with these commitments, the Company's business operations could be exposed to scrutiny and its exports to potential remedial measures, such as duties, which could have a material adverse effect on its business, financial position and results of operations.

#### **2.2.13 Risks related to the SAR to U.S. Dollar peg**

***The Company's financial position and results of operations may be adversely affected if the Kingdom stops pegging the SAR to the U.S. Dollar.***

The Company has determined that the U.S. Dollar is its functional currency because a substantial amount of its products are traded in U.S. Dollars in international markets. However, many of its operational and other expenses are denominated in SAR, which have been exchanged at a fixed rate to the U.S. Dollar in the Kingdom since 1986G. If the Kingdom's policy of pegging the SAR to the U.S. Dollar were to change in the future and the SAR were to become stronger relative to the U.S. Dollar, the Company may experience a significant increase in the SAR denominated costs of its operations. Such an increase could have a material adverse effect on the Company's business, financial position and results of operations.

In addition, the Company pays dividends to its shareholder, the Government, in U.S. Dollars. If the SAR is no longer pegged to the U.S. Dollar and the value of the SAR were to change, the Company may be required to expend additional cash to fund any dividends. Such changes could have a material adverse effect on the Company's financial position.

### **2.3 Risks Related to the Offer Shares**

#### **2.3.1 Risks related to the type and size of the offering in the Kingdom**

***An initial public offering in the Kingdom of this kind and size is unprecedented. Any disruption in trading of the Shares could impact their market price and delay the ability to conduct transactions.***

An initial public offering in the Kingdom of this kind and size is unprecedented and the Offering is expected to be the largest issuance to trade on the Exchange. The largest previous offering on the Exchange was for gross proceeds of approximately SAR 22.5 billion (approximately \$6.0 billion). Consequently, there may be unforeseeable risks in connection with trading on the Exchange.

In addition, the Exchange has recently modernised its platform and aligned its processes with international standards for this Offering in order to accommodate the unprecedented high trading volume of the Shares that is expected. In addition, the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners and Receiving Entities have changed and modernised their processes for offerings in the Kingdom to be in line with standards for an international offering. However, the changes to these trading mechanisms and procedures are untested and there can be no assurance that they will adequately facilitate the Listing of and expected high trading volume in the Shares. Any significant disruption or delay in consummation of transactions in the Shares through the Exchange could have a material adverse effect on investor willingness to trade in the Shares and may cause volatility in, or have a material adverse effect on, the market price of the Shares.



### **2.3.2 Risks related to a delay in closing and Listing of the Shares**

#### ***Closing of the Offering and Listing of the Offer Shares to trading on the Exchange could be delayed.***

A public offering of shares to be listed on the Exchange typically closes concurrently with the shares being admitted for trading on the Exchange, with both typically occurring more than two weeks after the announcement of the final offer price for the shares. During that time, the parties complete the retail offer (which in the Kingdom has not previously begun until after the final offer price is set) and complete the subscription process and allocation of the shares. The Exchange has recently implemented a number of new procedures to enable the Listing of the Offer Shares to take place within the timeframe described in “*Key Dates and Subscription Procedures*” elsewhere in this Prospectus. However, these new procedures have not been used in the past and there can be no assurance that Listing of the Offer Shares will commence as expected. As a result, closing of the Offering and Listing of the Offer Shares for trading on the Exchange could be delayed. The Exchange will announce the commencement of trading of the Shares on the Exchange on its website (tadawul.com.sa).

### **2.3.3 Risks related to trading in the Offer Shares commencing upon closing**

#### ***The Offer Shares will not commence trading on the Exchange until the Offering is closed and the Offer Shares are admitted for listing on the Exchange.***

Investors will not receive Offer Shares, or interests in the Offer Shares, and will not be able to trade Offer Shares, or interests in the Offer Shares, until the Offering is closed and the Offer Shares are admitted for listing on the Exchange. This may affect the willingness of investors to invest in the Offer Shares. Trading in the Offer Shares (or interests therein) is prohibited under the CMA rules until these events occur. For more details on the trading of the Offer Shares and interests therein, see Section 18.12 (*Trading of Shares*).

### **2.3.4 Risks related to not directly holding Shares**

#### ***Non-Qualified Foreign Investors will not be able to directly hold Shares.***

Under applicable regulations, non-Qualified Foreign Investors wishing to participate in the Offering must enter into swap arrangements with Authorised Persons pursuant to which they acquire an economic benefit in the Offer Shares. Non-Qualified Foreign Investors are able to trade these interests through Authorised Persons who will hold legal title to the Shares. Accordingly, non-Qualified Foreign Investors will not hold legal title to the Shares nor will they be able to vote the Shares in which they hold an economic benefit.

### **2.3.5 Risks related to the Exchange’s trading limits**

#### ***The Exchange limits on share price movements of 10% or more per day will apply to the trading of the Shares.***

The Exchange applies a trading limit for shares listed on its Main Market equal to a variance of 10% or more (upwards or downwards) of the previous day’s closing price. If the trading limit is reached (upwards or downwards), trading in the Shares will cease and investors will not be able to buy or sell Shares until the next trading day, at which time the restriction on fluctuations of 10% or more will again apply. This limitation could have an impact on the trading price of the Shares.

### **2.3.6 Risks related to availability of SAR**

#### ***The inability of foreign investors to exchange SAR for other currencies could have a material adverse effect on demand for, and the trading price of, the Shares.***

All purchases and sales of Shares on the Exchange, or interests in the Shares through swap arrangements, will be denominated in SAR. There can be no assurance that Foreign Investors and Foreign Strategic Investors will have the ability to obtain SAR in amounts necessary to purchase the desired amount of Shares or swap interests. In addition, the Company will pay dividends on the Shares to non-Government Shareholders in SAR. Any actual or perceived inability for foreign investors to exchange SAR for other currencies could have a material adverse effect on demand for, and the trading price of, the Shares.

### ***2.3.7 Risks related to the lack of an active and liquid market for the Shares***

***There is currently no public market for the Shares, and there can be no assurance that an active and liquid market for the Shares will develop or be sustained after the Offering.***

There is currently no public market for the Shares, and there can be no assurance that an active and liquid market for the Shares will develop or be sustained after the Offering. If an active and liquid market is not developed or maintained, the price of the Shares could be adversely affected.

The Final Offer Price has been determined based upon a variety of factors that have impacted and could in the future affect the Company and the value of the Shares. Various factors, including the Company's financial results, general conditions in the oil and gas industry, economic factors, the regulatory environment in which the Company operates and other factors that are beyond the Company's control, could lead to the market price of the Shares being significantly lower than the Final Offer Price.

### ***2.3.8 Risks related to the volatility of the trading price of the Shares***

***The trading price of the Shares may be volatile and fluctuate significantly due to a variety of factors, many of which are outside the Company's control, which could result in significant losses to prospective investors.***

The trading price of the Shares may be volatile and could fluctuate significantly in response to a variety of factors, many of which are beyond the Company's control, including:

- changes affecting market valuations of companies in the oil and gas industry, including changes in the price of crude oil and natural gas, or the willingness of investors to invest in oil and gas companies;
- variations in the Company's results of operations or reserve data;
- announcements regarding the Company's earnings that are not consistent with market expectations;
- political or military developments or terrorist attacks in MENA or elsewhere;
- publication of industry data by third parties, including government statistical agencies, that differ from expectations of industry or financial analysts;
- downgrades or changes in research coverage by securities research analysts;
- changes in eligibility for the Shares to be included in certain financial indices;
- press reports, whether or not factual, about the Company or the Kingdom;
- political, economic or other developments in or affecting the Kingdom;
- changes in the regulatory environment;
- additions to or departures of key personnel;
- changes to the policy of pegging the exchange rate between the SAR and the U.S. Dollar;
- release or expiry of lock up or other transfer restrictions on the Shares; and
- sales or perceived potential sales of additional Shares by the Government.

Any of these factors may result in large and sudden changes in the trading volume and market price of the Shares which in turn could lead to potential losses for investors.

### ***2.3.9 Risks related to being a minority shareholder***

***The interests of the Government, the Company's controlling shareholder, may differ from the interests of the Company or the Company's minority shareholders.***

The Government will continue to own a controlling interest in the Company after the Offering. The Government will be able to control matters requiring shareholder approval. The Government will have veto power with respect to any shareholder action or approval requiring a majority vote, except where it is required by relevant rules for the Government, as controlling shareholder, to abstain from voting. If the interests of the Government conflict with those of the Company's minority shareholders, the minority shareholders may be disadvantaged. For a discussion of the Kingdom's relationship with the Company and instances where the Government's interests may differ from the interest of the Company, see Sections 2.2.1 (*Risks related to Government-set*

*maximum level of crude oil production and target MSC), 2.2.2 (Risks related to the Kingdom's public finances and the hydrocarbon industry) and 2.2.6 (Risks related to Government-directed projects).*

In addition, pursuant to the Bylaws, the State may, at any time following the completion of the Offering, offer to purchase Shares from minority shareholders. If 75% of the Shares not held by the Government (or any shareholder acting in concert with the Government) consent to such sale in a duly held Extraordinary General Assembly, minority shareholders will be obligated to sell their Shares to the Government at the offer price proposed by the Government. A minority shareholder who is not present at such Extraordinary General Assembly, or votes against the resolution approving the sale of Shares to the Government, will still be bound by the Extraordinary General Assembly's resolution and will be compelled to sell its Shares to the Government. For further details regarding the Government's option to purchase Shares, see Section 13.13.7 (*Government's Option to Acquire Shares*).

#### **2.3.10 Risks related to relying on statements not made in this Prospectus**

***Prospective investors should only rely on statements made in this Prospectus in determining whether to purchase the Offer Shares.***

There has been substantial press coverage of the Company and the Offering by various media and news agencies, which is likely to continue. These articles presented statements about the Company and the Offering in isolation and did not disclose many of the related risks and uncertainties described in this Prospectus. Investors should not rely on these articles in isolation or at all. Prospective investors should carefully consider all the information in this Prospectus, including the risks described in this section, before investing in the Shares. In addition, the Company has in the past received, and may continue to receive, a high degree of media coverage, including coverage that is not directly attributable to, or falsely attributable to, statements made by the Company's directors, officers and employees, inaccurately reports statements made by the Company's directors, officers or employees or is misleading as a result of omitting to state information provided by the Company or its directors, officers or employees. Prospective investors should rely only on the information contained in this Prospectus in determining whether to purchase the Shares.

#### **2.3.11 Risks related to third party statements contained in this Prospectus**

***There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third party sources contained in this Prospectus.***

Certain facts, forecasts and other statistics relating to the Kingdom, its economy, the oil and gas industry and the energy industry are derived from various government publications, market data providers and other third party sources, including the Industry Consultant. The Company cannot guarantee the quality or reliability of these sources. The facts, forecasts and statistics reproduced and extracted from these sources have not been independently verified by the Company, Joint Financial Advisors, Joint Global Coordinators and Joint Bookrunners, or any of the Company's directors, affiliates, agents, employees or advisors. Prospective investors should give consideration as to how much weight or importance to place on such facts, forecasts and statistics and such information should not be unduly relied upon in making a decision whether to invest in the Shares.

#### **2.3.12 Risks related to payment of dividends on the Shares**

***There can be no assurance that the Company will pay dividends on the Shares or as to the amount of any such dividends and the Company may change its dividend policy without prior notice to its minority shareholders.***

Any decision to pay dividends on the Shares and the amount of dividends to be paid will be made at the discretion of the Board. The amount and frequency of any dividends will depend on a number of factors, including the Company's historic and anticipated earnings and cash flow, the Company's financial obligations and capital requirements, general economic and market conditions and other factors deemed relevant by the Board. Accordingly, there can be no assurance that the Company will pay dividends on the Shares or the amount of any such dividends. Additionally, the Company will continue to review its dividend policy on an ongoing basis and may change its dividend policy at any time without prior notice to its minority shareholders. For further details regarding dividends on the Shares, see Section 8 (*Dividend Distribution Policy and Dividends Framework*).

### 2.3.13 *Risks related to future sales of the Shares*

***Substantial future sales or perceived potential sales of the Shares or other equity securities of the Company in the public market could cause the price of the Shares to decline significantly.***

Sales of additional Shares or other equity securities of the Company in the public market after the Offering, or the perception that these sales could occur, could cause the market price of the Shares to decline significantly. Pursuant to the OSCO Rules, the Substantial Shareholder (who is also the Selling Shareholder) will be prohibited from disposing of additional Shares during the Statutory Lock-up Period, subject to certain exceptions. In addition, the Listing Rules will prohibit the Company from listing additional Shares for the Statutory Lock-up Period. Furthermore, the Selling Shareholder will be restricted from disposing of Shares, and the Company will be restricted from issuing additional Shares, for the duration of the Contractual Lock-up Period by the terms of the Underwriting Agreement and the Coordination Agreement, in each case subject to certain exceptions. For further information, see Section 18.7 (*Lock-up Period*). The transfer of Bonus Shares by the Selling Shareholder to Eligible Retail Bonus Investors as described in this Prospectus will not be subject to the Contractual Lock-up Period after expiration of the Statutory Lock-up Period. If and when the Government decides to sell additional Shares or the Company decides to issue new Shares, either after the Statutory Lock-up Period and the Contractual Lock-up Period or pursuant to an exception thereto, including in connection with the Saudi Aramco Share Plan, the market price of the Shares could be materially and adversely affected. For more information on the Saudi Aramco Share Plan, see Section 6.9 (*Saudi Aramco Share Plan*).

### 2.3.14 *Risks related to research published about the Company*

***If securities or industry analysts do not publish research or publish inaccurate or unfavourable research about the Company or its business, the market price for the Shares may decline.***

The trading price and volume of the Shares will depend in part on the research that securities or industry analysts publish about the Company and its business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers the Company downgrades their recommendations on the Shares or publishes inaccurate or unfavourable research about the Company's business, the market price for the Shares could decline. In addition, if one or more research analysts cease coverage of the Company or fail to publish reports on it regularly, it could lose visibility in the financial markets, which, in turn, could cause the market price for the Shares to decline significantly.

### 3. INDUSTRY OVERVIEW

Unless otherwise stated, the data in this Section is derived from the information prepared by the Industry Consultant for the Company. See “Presentation of Financial, Reserves and Certain Other Information” on page v. The analysis and forecasts provided by the Industry Consultant are based on integrating data and analytics from multiple disciplines, including macroeconomics, geopolitics, technology, policy and social and technical fields. Using this information and historical data, the Industry Consultant creates integrated forecasts for supply, demand and pricing of a wide range of energy and petrochemicals products. The forecast data is drawn from the Industry Consultant’s base case scenario which represents a continuation of industry drivers, trends and enacted policies as at the date of this Prospectus. The Industry Consultant has developed alternative scenarios which forecast future supply and demand growth trajectories which may be higher or lower than those provided herein.

The Industry Consultant provides research, data and advisory services to major international companies as well as public institutions. It operates in several fields and sectors, principally energy, finance, transportation and petrochemicals. The Industry Consultant is listed on The New York Stock Exchange, has its headquarters in London, United Kingdom and has approximately 15,000 employees.

#### 3.1 Overview

- **Global demand for crude oil is expected to continue growing, with global GDP growth being a key driver.** Real global GDP is expected to grow at a CAGR of 2.9% from 2018G to 2030G, after growing at a CAGR of 3.2% from 2009G to 2017G. Future growth is expected to be led primarily by non-OECD Asia Pacific, with an anticipated real GDP growth at a CAGR of 5.2% from 2018G to 2030G. Global crude oil demand is expected to grow at a CAGR of 0.8% from 2018G to 2030G. Growth in demand from non-OECD Asia Pacific and other developing countries is expected to help mitigate any reduction in demand for crude oil caused by the increasing availability of alternative energy sources, greater energy efficiency and the emergence of new technologies in energy consumer markets, such as electric vehicles.
- **Global demand for refined products and chemicals, including ethylene, is expected to grow.** Global demand for refined products is expected to increase at a CAGR of 0.8% from 2018G to 2030G, driven by an increase in demand in Africa, the Middle East and Asia Pacific. Between 2018G and 2030G, global demand for ethylene is expected to grow at a CAGR of 3.3%, primarily due to an anticipated growth in demand from China and North America.
- **In-Kingdom demand for natural gas is expected to grow significantly.** The Kingdom’s demand for natural gas is expected to grow at a CAGR of 3.6% from 2017G to 2030G, primarily due to an increase in demand from the power generation and the refining and industrial sectors.

#### 3.2 Global GDP as a Primary Driver of Oil Demand

##### 3.2.1 GDP

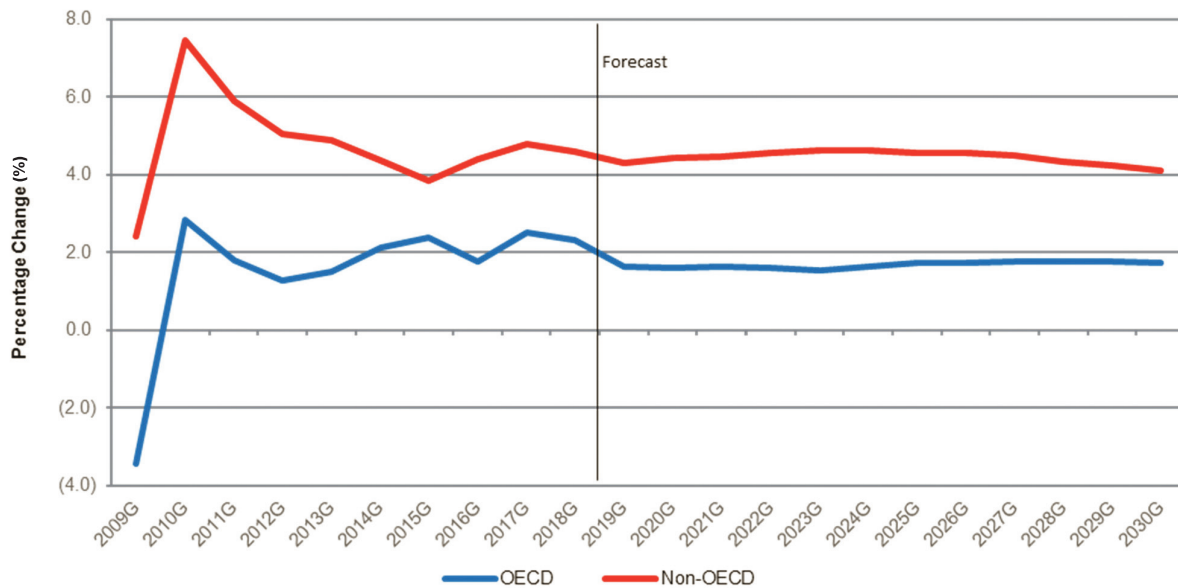
Real global GDP is a key driver of oil demand. From 2009G to 2018G, real global GDP grew at a CAGR of 3.2%, and is expected to grow at a CAGR of 2.9% from 2018G to 2030G.

In recent years, non-OECD countries have been the main drivers of real global GDP growth. From 2009G to 2018G, the real GDP of non-OECD countries increased at a CAGR of 5.1%, while the real GDP of OECD countries increased at a CAGR of 2.1%. Non-OECD Asia Pacific accounted for a large portion of the growth within non-OECD countries, with a CAGR of 7.0% from 2009G to 2018G.

The real GDP of non-OECD countries, generally, and in Asia Pacific, specifically, is forecasted to grow at a CAGR of 4.4% and 5.2%, respectively, from 2018G to 2030G, while the real GDP of OECD countries is expected to grow at a CAGR of 1.7% during that period. The anticipated growth in non-OECD Asia Pacific is primarily due to population growth, increasing per capita wealth (real GDP per capita in non-OECD Asia Pacific is expected to grow at a CAGR of 4.5% from 2017G to 2030G), a rising number of middle-class consumers and increased urbanisation (the population living in urban areas is projected to grow from 46% in 2018G to 53% in 2030G).

The following chart shows real GDP annual growth rates in OECD and non-OECD countries from 2009G to 2018G and expected annual growth rates from 2019G to 2030G.

**Exhibit 1: Actual and expected real GDP annual growth rates in OECD and non-OECD countries from 2009G to 2030G**

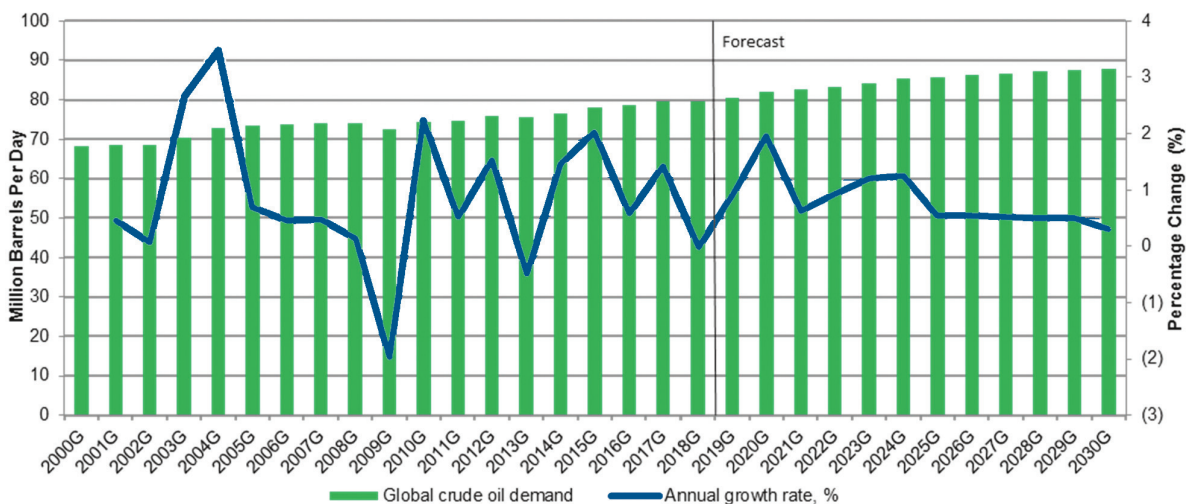


Source: Industry Consultant.

### 3.2.2 Crude Oil Demand

Over time, global crude oil demand growth generally tracks global GDP growth trends. However, in recent years global GDP has grown at a higher rate than global crude oil demand due to several factors, including an increasing use of alternative energy sources, more efficient use of crude oil and the electrification of vehicles. Global crude oil demand increased at a CAGR of 0.9% between 2000G and 2018G and is expected to grow at a CAGR of 0.8% from 2018G to 2030G. The following chart illustrates global annual crude oil demand and growth rates from 2000G to 2018G and expected annual crude oil demand and growth rates from 2019G to 2030G.

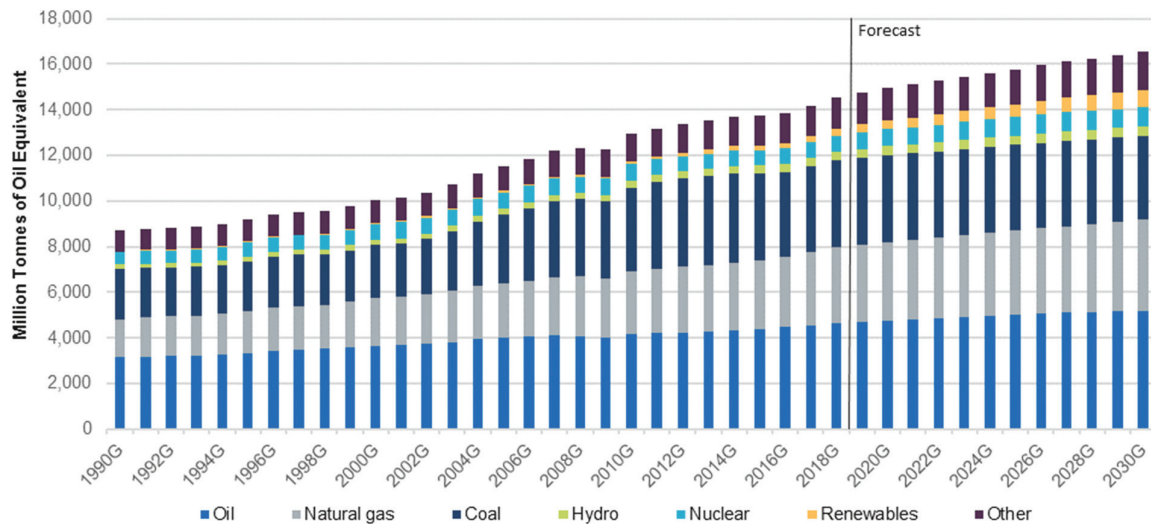
**Exhibit 2: Global actual and expected annual crude oil demand and growth rates from 2000G to 2030G**



Source: Industry Consultant.

Demand for oil is influenced by its use for energy. Oil is the world's leading energy source, accounting for 32.0% of the global energy demand in 2018G. Through 2030G, oil is expected to remain the primary energy source despite anticipated increases in energy efficiency, increased use of natural gas and renewable energy sources, such as solar and wind power, and the introduction of new technologies, such as electric vehicles. In 2030G, oil is expected to account for approximately 31.5% of total energy consumption. The following chart sets forth the sources of energy from 1990G to 2018G and expected global sources of energy from 2019G to 2030G.

**Exhibit 3: Actual and expected sources of energy from 1990G to 2030G**



Source: Industry Consultant.

### 3.3 Liquids Supply-Demand Balance

Liquids balance is an indicator of how the global oil market is performing in terms of supply-demand dynamics. The global supply of liquids products relies on feedstock supply from hydrocarbons, including crude oil, condensate, and NGLs. Conversely, the demand for liquids products, which include refined products, blended biofuels, synthetic fuels, liquid petroleum gases and ethane, differs by region. In non-OECD countries, generally, and in non-OECD Asia Pacific specifically, liquids demand increased at a CAGR of 3.3% and 4.7%, respectively, from 2009G to 2018G, while liquids demand in OECD countries increased at an average rate of 0.3%. From 2018G to 2030G, liquids demand in non-OECD countries, generally, and in non-OECD Asia Pacific specifically, is anticipated to grow at a CAGR of 1.9% and 2.5%, respectively. In contrast, liquids demand in OECD countries is expected to remain constant, as a result of increased fuel efficiency and the maturity of OECD countries, which have sizeable, yet stable, demand.

Any movement in supply or demand for liquids products affects the liquids balance and, correspondingly, oil prices and production decisions. The most significant recent imbalance was excess supply in liquids in the period between 2014G and 2016G, which exerted downward pressure on oil prices. The following chart shows the liquids supply-demand dynamic from 2000G to 2019G.

**Exhibit 4: Liquids supply-demand dynamic from 2000G to 2019G**



Source: Industry Consultant.

Liquids supply and demand growth rates both began to slow in 2016G, with supply growth slowing to a greater degree than demand growth. The annual supply growth rates fell from 3.1% to 0.6% between 2015G and 2016G, while the annual demand growth rates fell from 2.3% to 1.5% between 2015G and 2016G. The slowdown in supply growth was a result of the market reaction to excess inventory and the corresponding steep fall in prices starting in 2014G. In 2017G, liquids markets reached equilibrium and oil prices began to rise as a result. The following chart sets forth the relationship between global liquids balance and Brent price from 2000G to 2019G.

**Exhibit 5: Relationship between global liquids balance and Brent price from 2000G to 2019G**

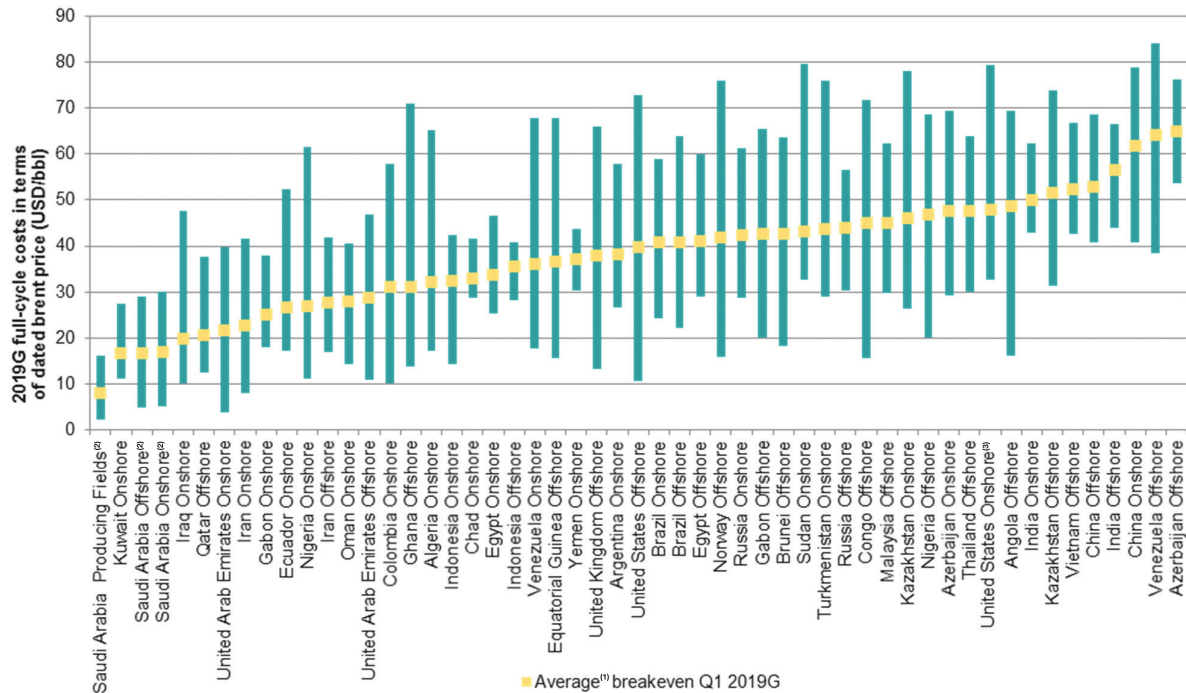


Source: Industry Consultant.

Additionally, as oil prices fell from 2014G to 2016G, producers began to reduce oil and gas exploration and production capital expenditures, with North America experiencing the most significant drop. Global annual oil and gas exploration and production capital expenditures fell from \$699 billion to \$344 billion during that period. Since 2016G, global capital expenditures have been increasing steadily and rose to \$410 billion in 2018G. Notably, onshore unconventional resources have experienced a 78% increase, the most significant increase in capital expenditures during this period. Despite global volatility since 2014G, capital expenditures in the Middle East have remained relatively stable and have recovered in 2018G to pre-downturn levels. In the next three to five years global exploration and production capital expenditures are expected to continue increasing at a modest pace. The following chart sets forth post-tax breakeven costs for new oil projects at a 10% rate of return by country through 2030G.



**Exhibit 6: Post-tax breakeven costs for new oil projects at a 10% rate of return by country through 2030G**



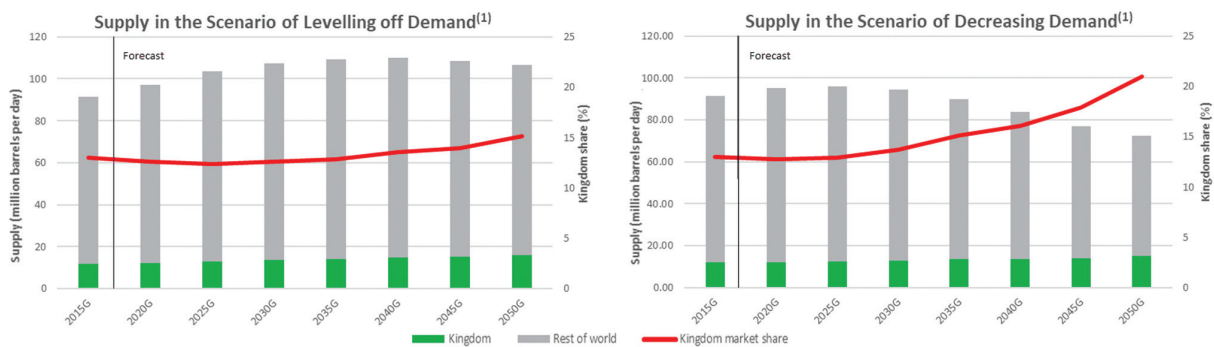
Source: Industry Consultant.

- (1) Average is not a weighted or arithmetic average but a selection of what a typical new oil project in that country would cost in today’s market. New oil projects selected by country from 2019G-onwards.
- (2) The breakeven price for producing fields in the Kingdom is forward-looking and hence excludes all exploration and development costs. The break-even price for the Kingdom (for the three categories—producing fields, onshore and offshore) is calculated assuming an income tax rate of 50%. The analysis is carried out for typical new projects starting in 2019G.
- (3) The break-even for U.S. Onshore excludes land acquisition cost.

Demand growth for crude oil, condensate and NGLs is expected to continue, with a levelling off around the year 2035G. Global supply is expected to move in line with demand, with an expected increase in market share from lowest cost producers, including the Kingdom. Consequently, between 2015G and 2050G, the Kingdom’s daily crude oil, condensate and NGLs supply volumes are expected to increase at a CAGR of 0.9%.

Alternatively, in a scenario representing a more rapid transition away from fossil fuels, demand for crude oil, condensate and NGLs starts to decline in the late 2020Gs. In this scenario, the Kingdom’s share of global supply is also expected to increase through 2050G, with the Kingdom’s daily crude oil, condensate and NGLs supply volumes expected to increase at a CAGR of 0.7% between 2015G and 2050G. The following chart illustrates actual and expected supply of crude oil, condensate and NGLs from 2015G to 2050G under both demand scenarios.

**Exhibit 7: Actual and expected supply of crude oil and NGLs from 2015G to 2050G under both demand scenarios**



Source: Industry Consultant.

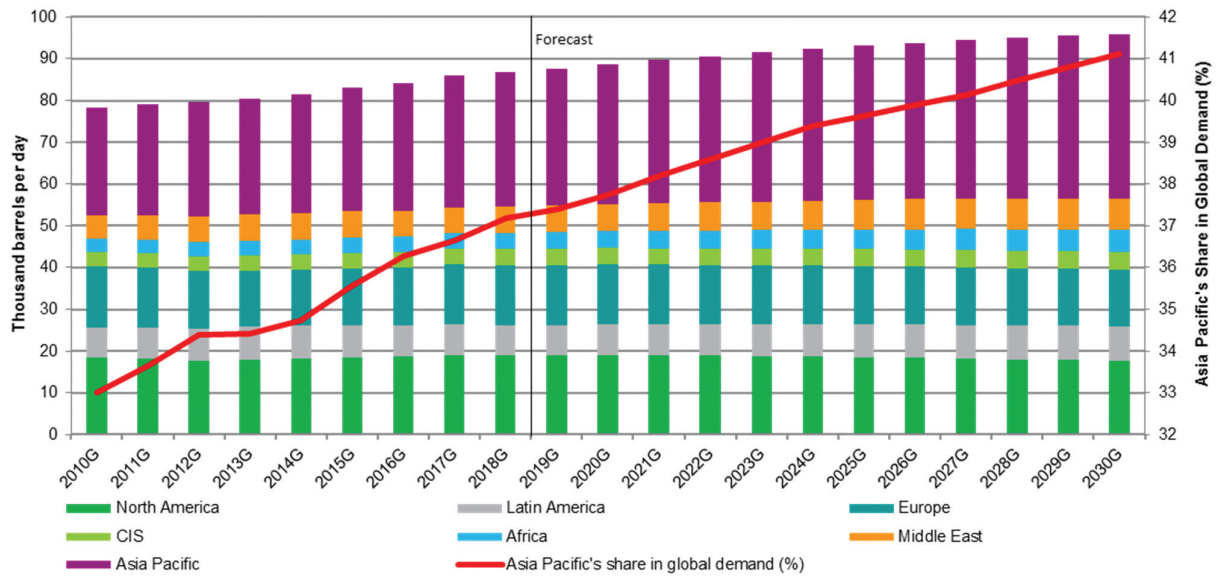
- (1) The Kingdom’s market share projections in these two scenarios are based on a number of assumptions regarding government policies, technology developments and market responses.

### 3.4 Growth in Global Demand for Refined Products and Chemicals

Between 2010G and 2018G, refined product demand increased globally at a CAGR of 1.3%, mainly driven by growth in Africa, the Middle East and Asia Pacific, which saw refined product demand increase at CAGRs of 2.8%, 1.3% and 2.8%, respectively, between 2010G and 2018G.

Global demand for refined products is expected to increase at a CAGR of 0.8% from 2018G to 2030G driven by continuing demand from Africa, the Middle East and Asia Pacific, which are expected to grow at CAGRs of 2.4%, 1.6% and 1.7%, respectively. Over that period, Asia Pacific's share of global demand for refined products is expected to increase from 37.2% to 41.1%. Demand for refined products in North America from 2018G to 2030G is expected to decrease at a CAGR of 0.6%, and is expected to remain flat in Europe. The following chart illustrates refined product demand by region from 2010G to 2018G and expected refined product demand by region from 2019G to 2030G.

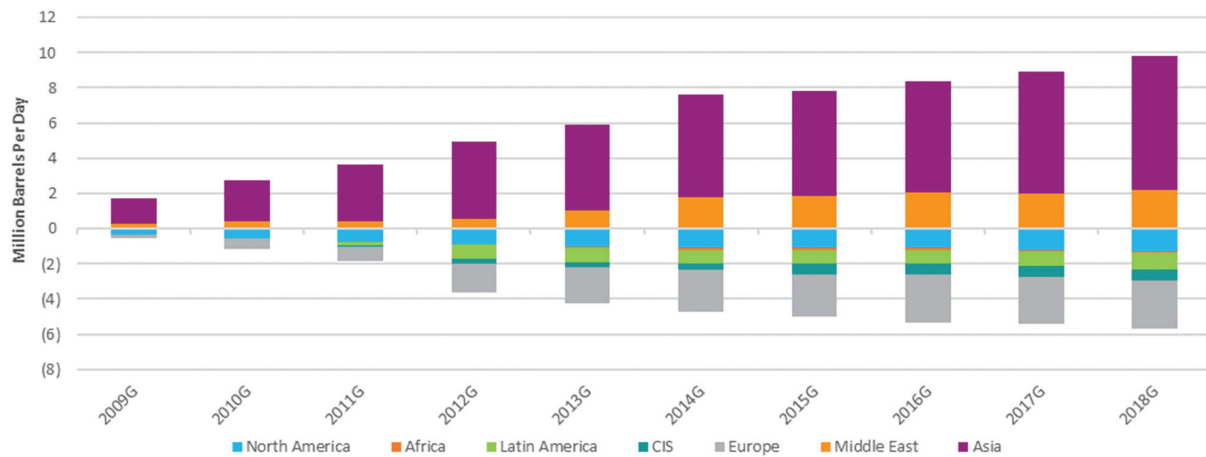
**Exhibit 8: Actual and expected refined product demand by region from 2010G to 2030G**



Source: Industry Consultant.

The regional changes in refined product demand have led to a geographical shift in refining operations, with new, large and increasingly complex refineries opening in Asia Pacific and Middle East and aging refineries closing in OECD countries, particularly in Europe, as they become uneconomical and inefficient to operate. These new, larger and increasingly complex refineries have superior crude diet flexibility and greater efficiency. The following chart depicts net cumulative refinery capacity additions and (closures) between 2009G and 2018G, with net cumulative refinery additions in the Middle East and Asia and net cumulative refinery closures in North America, Africa, Latin America, the Commonwealth of Independent States (“CIS”) and Europe.

**Exhibit 9: Net cumulative refinery capacity additions and (closures) between 2009G and 2018G**

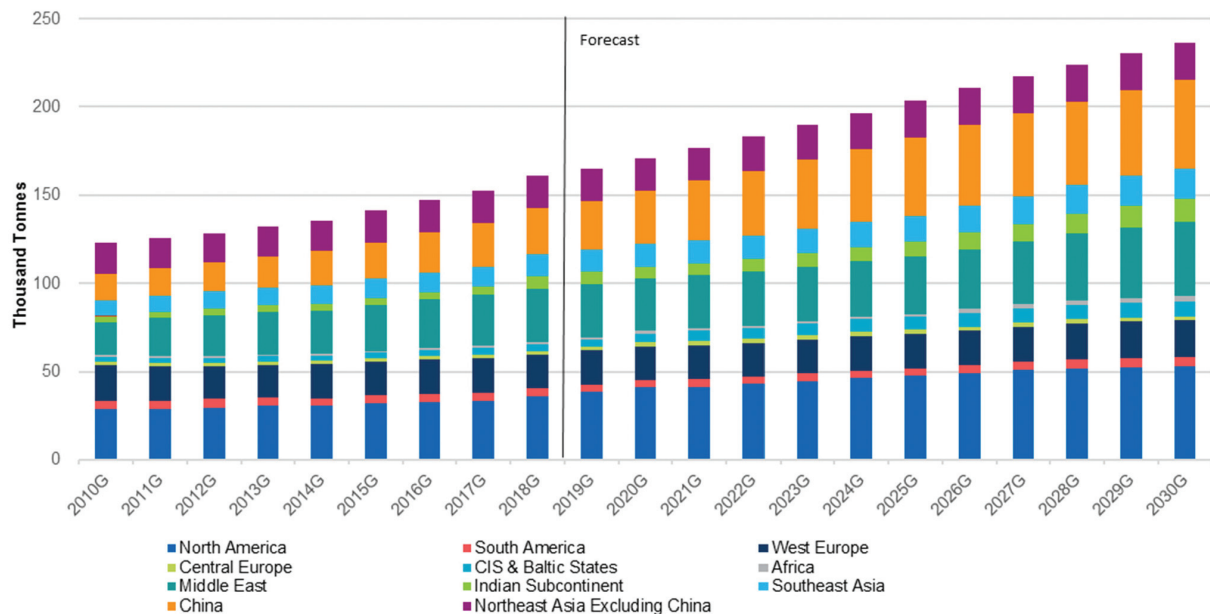


Source: Industry Consultant.

In addition, refinery product yields are shifting to high-quality fuels, such as gasoline, jet fuel and certain types of diesel, and the upgrading of fuel oil to higher value products. This shift is driven by regulatory requirements and a global tightening of emissions standards. Fuel economy and GHG emissions policies also have a significant impact on fuel consumption and, as a result, stricter regulations on fuels and increased sales of electric vehicles will impact refined products demand.

Demand for chemicals is expected to increase at a greater rate than the increase in demand for crude oil and refined products. Domestic demand for ethylene, a key base product for chemicals, grew at a CAGR of 3.5% globally from 2010G to 2018G and is forecasted to grow at a CAGR of 3.3% from 2018G to 2030G. The projected growth in domestic demand for ethylene is expected to be mainly driven by an increase in demand from China and North America at a CAGR of 5.6% and 3.3%, respectively, from 2018G to 2030G. The following chart sets forth the global domestic demand for ethylene by region from 2010G to 2018G and expected domestic demand for ethylene from 2019G to 2030G.

**Exhibit 10: Global actual and expected domestic demand for ethylene by region from 2010G to 2030G**



Source: Industry Consultant.

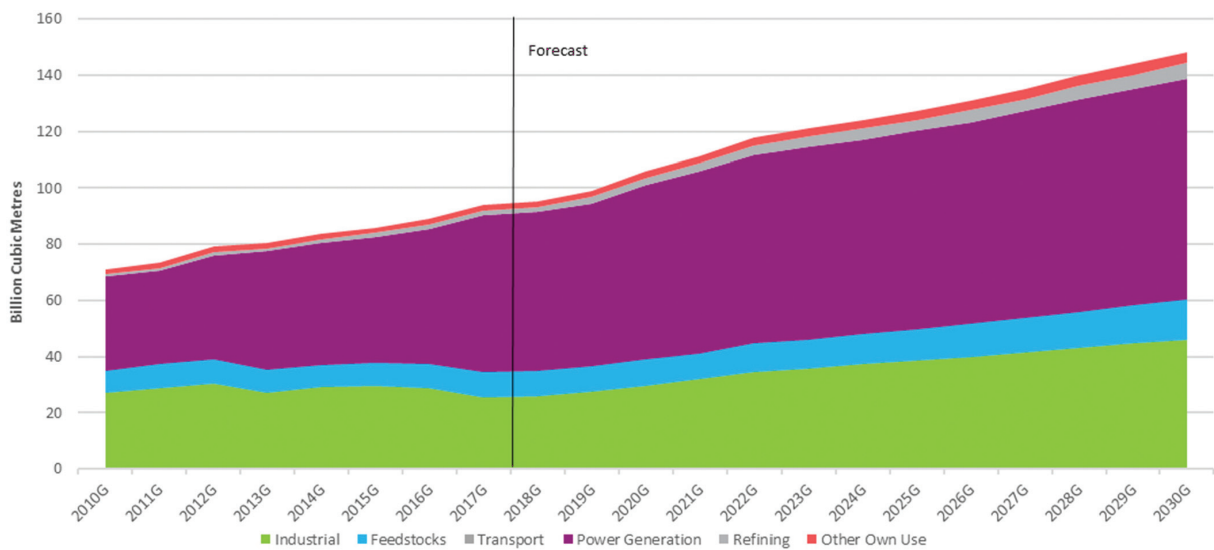
Increasingly, new chemical production projects are expected to be more efficient and sustainable by integrating with existing refineries and expanding the proportion of higher value derivatives, such as fine chemicals and specialities, to base chemicals or commodities.

### 3.5 In-Kingdom Natural Gas Demand

The Kingdom was the country with the seventh highest natural gas demand globally in 2018G. From 2017G to 2030G, in-Kingdom natural gas demand is expected to grow at a CAGR of 3.6%, which is expected to outpace growth of global demand for gas, which is expected to grow at a CAGR of 1.7% during the same period. The Kingdom’s domestic use of natural gas has historically been constrained by available supply. However, over the past decade, development of non-associated natural gas resources in the Kingdom has significantly increased domestic natural gas production capacity. For a discussion on the expansion of the MGS, see Section 4.7.1.4 (*Gas and NGLs*).

Future in-Kingdom demand for natural gas is expected to be driven primarily by expected growth in demand for power generation and the refining and industrial sectors, including chemical feedstocks. The following chart sets forth the Kingdom’s natural gas demand by sector from 2010G to 2017G and expected natural gas demand by sector from 2018G to 2030G.

**Exhibit 11: Kingdom’s actual and expected natural gas demand by sector from 2010G to 2030G**



Source: Industry Consultant.

(1) Volumes exclude ethane use as petrochemicals feedstock and other NGL demand.

As additional natural gas is produced in the Kingdom, the Kingdom is expected to rely more on natural gas for power generation, which in turn is expected to be the primary driver of gas demand in the Kingdom through 2030G. The following chart shows power capacity growth by fuel (including natural gas) used in the Kingdom from 2010G to 2017G and expected power capacity growth by fuel (including natural gas) used in the Kingdom from 2018G to 2030G.

**Exhibit 12: Actual and expected power capacity growth by fuel (including natural gas) used in the Kingdom from 2010G to 2030G**



Source: Industry Consultant.

Natural gas-fuelled power capacity is expected to grow at a CAGR of 3.1% from 2017G to 2030G, and natural gas-fuelled power generation at a CAGR of 3.5% for the same period. In 2030G, power generation using natural gas as feedstock is expected to constitute approximately 70.8% of the country’s electricity generation output, up from 60.3% in 2017G, while oil’s share is expected to decline from 39.7% to 19.8%.

Although most of the additional natural gas supply is expected to be used to meet new power demand, some natural gas volumes will displace existing oil-based power generation. Overall, these steps are expected to lead to a reallocation of the use of crude oil from a feedstock for power generation to being available for export.

The refining and industrial sectors are expected to be secondary drivers of natural gas demand in the Kingdom through 2030G with demand expected to grow at a CAGR of 9.6% and 4.6%, respectively, from 2017G to 2030G. As the Kingdom’s economy continues to grow, the refining and industrial sectors are also expected to expand. As a result, these sectors are expected to increase their natural gas demand.

### 3.6 Competitive Landscape

The principal competitors of the Company outside the Kingdom are IOCs (e.g., ExxonMobil, Chevron, Shell, Total and BP) which have a presence across upstream and downstream (to differing degrees). The Company also competes with NOCs in providing crude oil and refined products into selected geographies.

## 4. THE COMPANY

### 4.1 Overview of the Company and its Business Activities

The Company is the world's largest integrated oil and gas company. In the first six months of 2019G, the Company produced 13.2 million barrels per day of oil equivalent, including 10.0 million barrels per day of crude oil (including blended condensate). In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate). The Company's crude oil production accounted for approximately one in every eight barrels of crude oil produced globally from 2016G to 2018G. As at 31 December 2018G, the Company's proved liquids reserves were approximately five times larger than the combined proved liquids reserves of the Five Major IOCs. In addition, the Company's net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with the most recently available third party refining capacity data as provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day and net refining capacity of 3.1 million barrels per day. The Company is focussed on maintaining its pre-eminent upstream position and continued strategic integration of its downstream operations to secure demand for its crude oil and to capture value across the hydrocarbon chain.

The Company's heritage dates back to 1933G as an upstream venture founded by predecessors to Chevron and ExxonMobil, two of today's Five Major IOCs. The Company's upstream operations are based in the Kingdom and it also operates a global downstream business. Its primary operating segments are the upstream segment and the downstream segment, which are supported by the corporate segment.

For the six months ended 30 June 2019G, the Company generated SAR 196.7 billion (\$52.5 billion) in net cash provided by operating activities and SAR 142.4 billion (\$38.0 billion) of Free Cash Flow. For the year ended 31 December 2018G, the Company generated SAR 453.7 billion (\$121.0 billion) in net cash provided by operating activities and SAR 321.9 billion (\$85.8 billion) of Free Cash Flow. The Company operates within a conservative financial framework, which led to a Gearing ratio of 2.4% as at 30 June 2019G and (8.6)% as at 31 December 2018G (with a net cash position as at that date). Free Cash Flow and Gearing are non-IFRS financial measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see Sections 7.4.3 (*Free Cash Flow*) and 7.4.4 (*Gearing*).

#### 4.1.1 Upstream

The Company is the world's leading producer of crude oil and condensate. In the first six months of 2019G, the Company produced 13.2 million barrels per day of oil equivalent, including 10.0 million barrels per day of crude oil (including blended condensate). In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate), an additional 0.2 million barrels per day of unblended condensate, 1.1 million barrels per day of NGLs, 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. The Company manages the Kingdom's unique reserves and resources base to optimise production and maximise long-term value pursuant to the Hydrocarbons Law, which mandates that the Company's hydrocarbon operations promote long-term productivity of the Kingdom's reservoirs and support the prudent stewardship of its hydrocarbon resources.

As at 31 December 2018G, the Kingdom's reserves in the fields the Company operates consisted of 336.2 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.1 billion barrels of NGLs and 233.8 trillion standard cubic feet of natural gas.

Under the Original Concession, which was in effect until 24 December 2017G, the Company's rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Accordingly, until such date, the Kingdom's reserves in the fields the Company operated were the same as the Company's reserves. Effective 24 December 2017G, the Concession limited the Company's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, to an initial period of 40 years, which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. In addition, the Concession may be extended for an additional 40 years beyond the prior 60 year period subject to the Company and the Government agreeing on the terms of the extension. See Section 13.5.1 (*The Concession*). The provision of a specified term in the Concession impacts the calculation of the Company's reserves as compared to the Kingdom's reserves in the fields the Company operates. The Concession also requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG through domestic production or imports.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2018G, the Company's reserves were 256.9 billion barrels of oil equivalent. The Company's oil equivalent reserves were sufficient for proved reserves life of 52 years, which was significantly longer than the 9 to 17 year proved reserves life of any of the Five Major IOCs based on publicly available information, consisting of 201.4 billion barrels of crude oil and condensate, 25.4 billion barrels of NGLs and 185.7 trillion standard cubic feet of natural gas. As at 31 December 2018G, the Company's portfolio included 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters.

Based on a comparison of production cost data of the Five Major IOCs and other leading oil and gas companies, the Company is uniquely positioned as the lowest cost producer globally as at 31 December 2018G. The Company's average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced in 2018G, following the Industry Consultant's methodology. In addition, the Company's upstream capital expenditures for the year ended 31 December 2018G averaged SAR 17.7 (\$4.7) per barrel of oil equivalent produced, also following the Industry Consultant's methodology. The Company's low cost position is due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which the Company's reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low depletion rate operational model and its scaled application of technology. Given the quality of most of the Company's reservoirs and its operational model, it is possible to achieve high recovery factors while maintaining relatively low water cut levels for long periods of time.

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires the Company to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law. MSC refers to the average maximum number of barrels per day of crude oil that can be produced for one year during any future planning period, after taking into account all planned capital expenditures and maintenance, repair and operating costs, and after being given three months to make operational adjustments. As at 30 June 2019G, the Company's MSC was 12.0 million barrels of crude oil per day. The spare capacity afforded by maintaining MSC enables the Company to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. The Company also uses this spare capacity as an alternative supply option in case of unplanned production outages at any field and to maintain its production levels during routine field maintenance. The Company generated revenues by utilising the spare capacity provided by MSC of SAR 133.0 billion (\$35.5 billion) from 2013G to 2018G. This additional revenue stems from periods where actual monthly production (made possible by MSC) was in excess of the average planned production level.

The Company's gas portfolio is rich in liquids, demonstrated by the production of 0.2 million barrels per day of unblended condensate and 1.1 million barrels per day of NGLs in 2018G. The Company is the exclusive supplier of natural gas in the Kingdom, the country with the seventh highest natural gas demand in the world in 2018G according to the Industry Consultant. The Company also supplied 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane to the Kingdom in 2018G. It owns and operates the MGS, which is an extensive network of pipelines that connects the Company's key gas production and processing sites throughout the Kingdom. The Company expects to further expand its gas reserves through new field discoveries, new reservoir additions in existing fields and delineation and reassessment of existing reservoirs and fields.

#### 4.1.2 *Downstream*

The Company has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation. The Company's net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with the most recently available third party refining capacity data as provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day and net refining capacity of 3.1 million barrels per day. The strategic integration of the Company's upstream and downstream segments provides an opportunity for the Company to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. The downstream segment's other business activities include base oils, lubricants and retail operations.

The Company's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2018G. The Company's upstream business produces all the crude oil supplied to and processed by the Company's wholly owned and affiliated refineries in the Kingdom and the majority of crude oil used by its international wholly owned and affiliated refineries. In 2018G, the Company's

weighted average ownership percentage in the Company's international refineries was 58%, but it supplied an average of 68% of the crude oil used by those refineries. This crude placement provides significant benefits to the Company's downstream operations, including a secure and reliable supply of high-quality crude oil, which helps to ensure a secure and reliable supply of refined products to its downstream customers.

The Company's refining operations in the Kingdom, including its domestic affiliates, accounted for 62% of its net refining capacity in 2018G. Together with the local distribution system, this provides the Company unique access to the large domestic marketplace to which it is the sole supplier. In addition to its domestic focus, the Company is focussing its downstream investments in areas of high-growth, including China, India and Southeast Asia, material demand centres, such as the United States, and countries that rely on importing crude oil, such as Japan and South Korea.

The Company also has an integrated petrochemicals business within its downstream segment, which enables it to capture incremental margin in the hydrocarbon value chain. The Company's chemicals business spans from production of basic chemicals such as aromatics, olefins and polyolefins to more complex products such as polyols, isocyanates and synthetic rubber. The Company's chemicals business continues to grow through capacity expansions in the Kingdom, increasing ownership positions in affiliates and new investments, including the proposed acquisition of the PIF's 70% equity interest in SABIC, which is currently expected to close in the first half of 2020G. Following the closing of the SABIC transaction, the Company's chemicals business will operate in over 50 countries and produce a range of chemicals, including olefins, ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. As at 31 December 2018G, the Company had a net and gross chemical production capacity of 16.7 million and 33.2 million tonnes per year, respectively. Upon closing of the SABIC transaction, the Company expects to have the largest net production capacity for ethylene and be amongst the top four companies by net production capacity for polyethylene, monoethylene glycol and polypropylene, according to the Industry Consultant.

The Company continues to evaluate a number of additional large-scale investment opportunities in high-growth geographies globally, as well as organic initiatives, to improve the operational and financial performance of its downstream assets, including capacity increases, asset upgrades, improvements in product yield and capturing additional petrochemical integration.

The Company's downstream segment includes its crude oil and product sales, distribution and trading platforms. These platforms support the Company's upstream and downstream operations by enabling it to optimise crude oil sales and product placement through its significant infrastructure network of pipelines and terminals and access to shipping and logistics resources. The Company also maintains flexibility to respond to fluctuations in demand through its five crude grades and MSC. This flexibility contributes to the Company's ability to meet its customer's needs and its reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.9% of its delivery obligations on time in 2017G, 2018G and the first six months of 2019G, respectively.

#### **4.1.3 Corporate**

The Company's corporate segment primarily supports the activities of its upstream and downstream segments. The corporate segment includes technical services that are essential to the success of the Company's core activities, as well as human resources, finance, corporate affairs and legal.

### **4.2 Proposed Acquisitions**

#### **4.2.1 Acquisition of 70% Equity Interest in SABIC**

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. SABIC operates in over 50 countries and produces a range of chemicals, including olefins ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. According to its public filings, in 2018G, SABIC's total production was 75.3 million tonnes, including 61.8 million tonnes of petrochemical and specialty products. As at and for the year ended 31 December 2018G, SABIC's total assets were SAR 320 billion, net income was SAR 32 billion and total revenue was SAR 169 billion. As at and for the six months ended 30 June 2019G, SABIC's total assets were SAR 320 billion, net income was SAR 8.3 billion and total revenue was SAR 73 billion.

The Company believes that purchasing a majority interest in SABIC will advance its strategy to increase the proportion of petrochemicals production in its downstream portfolio and support the Company's downstream



growth ambitions. In addition, the Company believes that the acquisition will facilitate the application of SABIC's expertise in the chemicals industry to the Company's existing and future integrated downstream facilities. Following the proposed acquisition, SABIC is expected to remain a listed company on Tadawul.

The 27 March 2019G purchase agreement provided that the purchase price for the acquisition would be paid on the closing date in the form of a cash payment equal to 50% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 50% of the purchase price. On 6 October 2019G, the Company and the PIF agreed to amend the payment terms to provide that, on the closing date, 36% of the purchase price (to be adjusted for certain expenses) will be paid in cash and 64% will be paid in the form of a seller loan. The seller loan will be secured by four separate promissory notes issued by Saudi Aramco in favour of the PIF. In accordance with the terms of the purchase agreement, Saudi Aramco will pay a loan charge to the PIF on the closing date in the form of a cash payment equal to \$500 million and the issuance of five additional promissory notes in an aggregate principal amount of \$2.5 billion.

The seller loan and the balance of the loan charge secured by the promissory notes will become due and payable as follows:

- (i) on or before 30 September 2020G, a loan charge of \$250 million;
- (ii) on or before 30 September 2021G, an amount equal to 16% of the purchase price plus a loan charge of \$250 million;
- (iii) on or before 30 September 2022G, an amount equal to 16% of the purchase price;
- (iv) on or before 30 September 2023G, an amount equal to 16% of the purchase price plus a loan charge of \$750 million;
- (v) on or before 30 September 2024G, an amount equal to 16% of the purchase price plus a loan charge of \$750 million; and
- (vi) on or before 30 September 2025G, a loan charge of \$500 million.

Each promissory note will be fully transferable and assignable and may be pledged by the PIF. However, if the PIF receives any offer or commitment of financing which would include a transfer of a promissory note, the Company may within 30 days of receiving notice of the offer or commitment, notify the PIF in writing of its intent to purchase all or a portion of the promissory notes to be transferred on the same terms. To the extent the Company does not elect to purchase the promissory notes to be transferred, the PIF may transfer such promissory notes during the subsequent 120 day period. The Company currently intends to repay the promissory notes in a phased manner through cash from operations, external debt financing or a combination thereof.

Closing of the acquisition is subject to customary closing conditions and is currently expected to occur in the first half of 2020G. The purchase agreement may be terminated by either party if closing does not occur within 18 months of the date thereof, subject to an extension of six months in certain circumstances. In addition, either party may terminate the purchase agreement (with certain exceptions) if the representations and warranties of the other party are not true and correct or there is a breach by the other party of the agreement and the resulting losses in either case exceed \$3 billion.

#### **4.2.2 Other Acquisitions**

On 15 April 2019G, the Company entered into a purchase agreement to acquire a 17% equity interest in Hyundai Oilbank from Hyundai Heavy Industries Holdings, for SAR 4.7 billion with an option to acquire an additional 2.9% equity interest. Hyundai Oilbank is a private oil refining company in South Korea. The Daesan Complex, where Hyundai Oilbank's major facilities are located, is a fully integrated refining plant with a processing capacity of 650,000 barrels of crude oil per day. The transaction, which is subject to customary closing conditions, is expected to close by the end of the first half of 2020G.

The Company has recently entered into non-binding agreements regarding the expansion of its downstream business in Asia, including entering into a non-binding letter of intent with Reliance Industries Limited on 12 August 2019G to purchase a 20% stake in its oil to chemicals division.

### 4.3 Recent Developments

#### *Fiscal Regime Changes*

The Government has made the following changes to the fiscal regime under which the Company operates:

- the Government adopted regulations regarding the manner in which the Company is compensated for gas sold domestically in the Kingdom such that the Company will be compensated by the Government for revenue directly forgone as a consequence of domestically supplying Regulated Gas Products in the event that Government-mandated prices do not meet the relevant price determined to achieve the rate of return approved by the Government for the Company's gas projects (effective as at 17 September 2019G);
- the Company and the Government executed an amendment to the Concession, which (effective as at 1 January 2020G):
  - (1) reduces the royalty rate on crude oil and condensate production to 15% (from 20%) on Brent prices up to \$70 per barrel;
  - (2) increases the marginal royalty rate to 45% (from 40%) on Brent prices above \$70 per barrel up to \$100 per barrel; and
  - (3) increases the marginal royalty rate to 80% (from 50%) on Brent prices above \$100 per barrel;
- the Government will compensate the Company for carrying costs associated with maintaining Government-mandated petroleum product reserves in an amount of \$41.2 million per month (effective as at 1 January 2020G);
- the Government extended the liquids price equalisation mechanism to compensate the Company for revenue directly forgone as a result of the Company's compliance with the Government mandates related to domestic sales of LPGs and certain other products (effective as at 1 January 2020G);
- the Government determined that the tax rate applicable to the Company's downstream business will be reduced from the 50% to 85% multi-tiered structure of income tax applicable to domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Income Tax Law, on the condition that the Company consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024G (effective as at 1 January 2020G); and
- the period for which the Company will not be obligated to pay royalties on condensate production was extended for an additional ten years after the current five-year period ending on 1 January 2023G, and may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development does not warrant such an extension (effective as at 1 January 2023G).

For further details on these changes to the fiscal regime, see Section 7.3.6 (*Fiscal Regime Changes*). The Company estimates that, had each of these fiscal regime changes been in effect for the six months ended 30 June 2019G, the Company's cash flow for such period would have been approximately \$4.5 billion higher.

#### *Recent Zakat Change*

Pursuant to Royal Order No. 16712, dated 11/3/1441H (corresponding to 8 November 2019G), the zakat obligations resulting from investments in the Shares listed on the Exchange will be settled as described in the following sentence. The Zakat amounts resulting from such investments will be calculated and deducted from tax payments by the Company and transferred to the zakat account at the Ministry of Finance for transfer eligible zakat recipients in accordance with applicable law.

#### *Recent Incidents*

In May 2019G, the East-West pipeline was attacked by an unmanned aerial vehicle carrying explosives. The pipeline was briefly shut down as a result of the attack.

On 17 August 2019G, the Company's Shaybah NGL facility was attacked by five unmanned aerial vehicles, which resulted in fires and damage to the processing and cogeneration infrastructure at the facility. The attacks triggered the Company's emergency response and business continuity protocols to halt feedstock flows, depressurise and shut down equipment, assess damage sustained and resume operations safely. No injuries or fatalities were reported during the incident. Restoration of plant operations on one NGL train was completed within two weeks after the attack and other repairs are ongoing. The Company has taken a number of steps to mitigate the impact of the shutdown on its customers, including providing ethane customers with propane as a substitute and adjusting C2+ NGL distribution. The

Company's preliminary estimate of the costs to repair the Shaybah NGL facility is approximately \$28 million and it does not expect that the revenues lost as a result of the attacks will be material.

On 14 September 2019G, the Company's Abqaiq facility and Khurais processing facility were attacked, which resulted in explosions, fires and significant damage to equipment at each facility. The attacks triggered the Company's emergency response protocols and fires were extinguished within approximately seven hours of the first impact. No injuries or fatalities were reported during the incident at either the Abqaiq facility or the Khurais processing facility. As a result of these attacks, the Company's crude oil production was temporarily reduced by approximately 54%. Since the attacks, the Company has taken a number of actions to minimise the impact on its customers, including tapping into the Company's crude oil inventories located outside of the Kingdom, swapping grades of deliveries and curtailing NGL deliveries to some customers and increasing production from other fields. Finally, in light of the gas production capacity reduction, certain power plants in the Kingdom partially switched feedstocks to crude burning. As at 25 September 2019G, the Company's production recovered to the same level as prior to the 14 September 2019G attacks and the Company continues to work towards fully restoring full plant operations safely at Abqaiq and Khurais. The Company does not expect the impact of these attacks to have a material impact on its business, financial condition or results of operations. For more information, see Section 2.2.5 (*Risks related to terrorism and armed conflict*).

#### *Recent Acquisitions*

On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company. The refinery has a gross refining capacity of 305,000 barrels of crude oil per day.

Additionally, on 31 October 2019G, Motiva acquired a 100% ownership interest in Flint Hills Resources Port Arthur, LLC, which operates a 634,000 tonne per year cracker, capable of processing ethane, propane and butane, in Port Arthur, Texas.

#### *Dividends*

On 1 November 2019G, the Company declared an ordinary dividend of \$13.4 billion with respect to the fiscal quarter ended 30 September 2019G. In addition, the Company will declare an interim (ordinary) dividend of a maximum of \$9.5 billion, after obtaining the necessary approvals from the Board, prior to the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors. These dividends will be paid to the Government (in its capacity as the sole shareholder in the Company) and investors in the Offer Shares will not be entitled to any portion of these dividends regardless of when they are paid, which may be prior to, or after, the date of such allocation. However, if the amount of the declared interim (ordinary) dividend exceeds \$9.5 billion, then the record date for the portion of such dividends that exceeds \$9.5 billion will be the first date on which the Shares are traded on the Exchange and investors in the Offer Shares on such date will be entitled to their pro rata portion of such excess.

Furthermore, subject to Sections 8.1 (*General*) and 8.2 (*Dividend Distribution Policy*), the Company will declare an interim (ordinary) dividend of \$3.9 billion with respect to the period from (and including) the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors through 31 December 2019G, which will be paid from the Company's available cash. The record date for holders of Shares (including holders of Offer Shares allocated in this Offering) entitled to their pro rata portion of such dividend will be determined at the time the dividend is declared. Only holders of Shares (including holders of Offer Shares allocated in this Offering) on the record date will be entitled to a portion of such dividend. If the amount of such declared interim (ordinary) dividend exceeds \$3.9 billion, investors in the Offer Shares on the applicable record date will be entitled to their pro rata portion of the full amount of such dividends, including any excess over \$3.9 billion.

#### **4.4 Corporate History and Evolution**

On 29 May 1933G, the Government granted a concession to Socal giving it the right to explore for oil within the Kingdom's borders. Later that year, Socal incorporated CASOC as a subsidiary to manage the concession. Texaco acquired a 50% interest in CASOC in 1936G. CASOC's first commercial success came in 1938G at a drill site in Dhahran, which quickly began producing more than 1,500 barrels of crude oil per day. In 1944G, CASOC was renamed Arabian American Oil Company. In 1948G, Standard Oil Company of New Jersey, which later became Exxon, purchased 30% of Arabian American Oil Company, and Socony-Vacuum Oil Company, which later became Mobil, purchased 10% to help provide market outlets and capital for the Kingdom's hydrocarbon reserves. In 1952G, Arabian American Oil Company's headquarters moved from New York to Dhahran, and in 1973G, the Government acquired an initial 25% participating interest in the concession, which increased to 60% in the following year. Arabian American Oil Company continued to grow and had become the

world's leading oil producer in terms of volume produced in a single year by 1976G. Between 1980G and 1981G, the Government increased its participation interest in the company's crude oil concession rights, production and facilities to 100%. During the 1980Gs, Arabian American Oil Company increased its production volumes and expanded its infrastructure with the construction of the East-West pipeline, a 1,200 kilometre pipeline dedicated to transporting crude oil from Dhahran to Yanbu' on the Red Sea. In the 1980Gs and 1990Gs, the company established refining and marketing joint ventures in strategic geographies around the globe in order to further expand its market and product offerings.

In 1988G, Saudi Arabian Oil Company, also known as Saudi Aramco, was established as a company with limited liability by virtue of Royal Decree No. M/8, dated 4/4/1409H (corresponding to 13 November 1988G), to assume the privileges and rights of Arabian American Oil Company.

In 1993G, the Company assumed the assets and operations of Saudi Arabian Marketing and Refining Company (also known as Samarec), a Government-owned in-Kingdom refining and international product marketing organisation, which included joint ventures with Shell (SASREF) and Mobil, which later became ExxonMobil (SAMREF). Subsequently, the Company entered into additional ventures with: Dow (Sadara); Lanxess (ARLANXEO); Petronas (PRefChem); Sinopec (YASREF); Sumitomo (Petro Rabigh); Total (SATORP); Shell (Motiva); and Mobil (Luberef). The Company acquired full ownership of Motiva (formerly a joint venture with Shell) on 1 May 2017G and ARLANXEO (formerly an associate in partnership with Lanxess) on 31 December 2018G. The Company's historical association with major hydrocarbons companies has provided it with dedicated outlets for its crude oil, technical expertise and operational and financial discipline.

On 1 January 2018G, the Company was converted into a joint stock company pursuant to Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G) and registered in the city of Dhahran under commercial registration No. 2052101150 dated 11/7/1439H (corresponding to 28 March 2018G) with Saudi Arabian Oil Company (Saudi Aramco) as its official name. The Company's registered office is P.O. Box 5000, Dhahran 31311, Kingdom of Saudi Arabia and its telephone number is +966 13 872 0115.

The current share capital of the Company is SAR 60,000,000,000, which is fully paid, consisting of two hundred billion (200,000,000,000) ordinary shares with no par value, all of which are owned by the Government.

## 4.5 Vision, Mission and Strategy

### 4.5.1 Vision

The Company's vision is to be the world's pre-eminent integrated energy and chemicals company, operating in a safe, sustainable and reliable manner.

### 4.5.2 Mission

The Company strives to provide its shareholders with resilient value creation through crude oil price cycles by maintaining its pre-eminence in oil and gas production, capturing additional value across the hydrocarbon value chain and profitably growing its portfolio.

### 4.5.3 Strategy

The Company's strategy aims to reinforce its competitive positions across its upstream and downstream operations.

#### 4.5.3.1 *Maintain its position as the world's leading crude oil producer by production volume and the lowest cost producer, while providing reliable, low carbon intensity crude oil supply to customers*

The Company intends to maintain its position as the world's leading crude oil producer by production volume. Its reserves, operational capabilities and spare capacity allow it to increase production in response to demand. The Company maintains its desired level of crude oil production by balancing production between maturing areas and newer production sources, tapping into new reservoirs when required to optimise the depletion rate of its fields. It also maintains its low cost position due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which the Company's reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low depletion rate operational model and its scaled application of technology. For the year ended 31 December 2018G, the Company's average upstream lifting costs and upstream capital expenditures were SAR 10.6 (\$2.8) per barrel of oil equivalent produced and SAR 17.7 (\$4.7) per barrel of oil equivalent produced, respectively, which was lower than that of each of the Five Major IOCs based on a comparison with lifting cost and upstream capital expenditure data provided by the Industry Consultant.

In addition, the Company seeks to maintain its position as one of the world's most reliable crude oil suppliers. The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires the Company to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law. The spare capacity afforded by maintaining MSC provides operational flexibility to respond rapidly to changes in global crude oil supply and demand. Though the Company has a robust field maintenance philosophy that emphasises the reliability of its upstream operations, MSC also provides an alternative supply option in the event of unplanned production outages at any field. Moreover, the Company utilises term agreements for selling crude oil to major consumers globally. These agreements provide supply predictability to customers by standardising price and delivery terms to major regional demand centres. The Company continues to invest in and develop a sophisticated and extensive crude oil distribution and dispatch system which maintains the Company's supply reliability.

Moreover, the Company seeks to preserve the low carbon intensity of its crude oil production, which places it among the world's least carbon intense sources of crude oil.

#### 4.5.3.2 *Capture value from further strategic integration and diversification of its operations*

The Company intends to continue the strategic integration of its upstream and downstream businesses to facilitate the placement of the Company's crude oil in larger offtake volumes through a captive system of domestic and international wholly owned and affiliated refineries, allow it to capture additional value across the hydrocarbon chain, expand its sources of earnings and provide resilience to oil price volatility. For example, the proposed acquisition of a 70% equity interest in SABIC supports the significant expansion of the Company's downstream activities, particularly in its chemicals business, and provides additional opportunities for the Company to supply mixed feedstock of crude oil, refinery products and gas to manufacture petrochemicals products. In addition, the integration of the Company's upstream and downstream segments provides a unique opportunity for the Company to secure crude oil demand by selling to refineries designed specifically to economically process Arabian crude oil. Furthermore, the Company intends to enhance its domestic and global marketing businesses to support the position of its upstream business in key, high-growth geographies, including China, India and Southeast Asia, which are integral to the Company's existing business and future expansion strategy. Moreover, the Company intends to maintain its presence in key large countries, such as the United States, and in countries that rely on importing crude oil, such as Japan and South Korea.

#### 4.5.3.3 *Expand gas activities in the Kingdom and internationally*

The Company plans to expand its gas business to meet large and growing domestic demand for low-cost clean energy by increasing production and investing in additional infrastructure. This demand is driven by power generation, water desalination, petrochemical production and other industrial consumption in the Kingdom. The Company's gas production also yields NGLs (including ethane) and condensate, which supplement its crude oil production and provide feedstock to the refining and petrochemical industries. Furthermore, the Company seeks over time to develop an integrated global gas portfolio and is pursuing investment and joint venture opportunities outside the Kingdom in natural gas and LNG projects.

#### 4.5.3.4 *Expand global recognition of the Company's brands*

The Company intends to expand global recognition of its brands in the energy sector. One aspect of this strategy is to introduce its brands to existing domestic and international marketing businesses, including at retail service stations, and further develop its petrochemicals and base oil brands. In addition, as new marketing activities are added to its business portfolio, the Company intends to use its own brands and thereby build recognition of its position as a leader in the global energy sector.

#### 4.5.3.5 *Efficiently allocate capital and maintain a prudent and flexible balance sheet*

The Company has a comprehensive and disciplined internal approval process for capital expenditures, new projects and debt incurrence. It analyses future projects based on strategic, operational, commercial and financial targets. The Company's unique reserves and resources base, operational flexibility, field management and strong cash flow generation serve as a foundation for its low Gearing and flexibility to allocate capital. As at 31 December 2018G and 30 June 2019G, the Company had a Gearing ratio of (8.6)% and 2.4%, respectively. The Company targets a low Gearing ratio of 5% to 15%. Gearing is a non-IFRS financial measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see Section 7.4.4 (*Gearing*).

#### 4.5.3.6 *Deliver sustainable and growing dividends through crude oil price cycles*

The Company is committed to delivering sustainable and growing dividends to its shareholders through crude oil price cycles. Subject to the Board's discretion after consideration of a number of factors, the Board intends to declare aggregate ordinary cash dividends of at least \$75.0 billion with respect to calendar year 2020G, in addition to any potential special dividends. In addition, Royal Order No. A/42, dated 26/1/1441H (corresponding to 25 September 2019G) provides that, to the extent that the Board determines that the amount of any quarterly cash dividend declared with respect to calendar years 2020G through 2024G would have been less than \$0.09375 per share (based on 200,000,000,000 Shares outstanding) but for the Government forgoing its rights to such dividend as follows, the Government will forgo its right to receive the portion of cash dividends on its Shares equal to the amount necessary to enable the Company to first pay the minimum quarterly cash dividend amount described above to holders of Shares other than the Government. The remaining amount of the declared dividend as determined by the Board in its discretion will be paid to the Government. See Section 8 (*Dividend Distribution Policy and Dividends Framework*).

The Company's average upstream lifting costs and upstream capital expenditures per barrel of oil equivalent produced, which in 2018G were lower than each of the Five Major IOCs, position the Company to generate significant amounts of cash flow during periods of relatively high crude oil prices, while enabling it to maintain positive cash flow during periods of relatively low prices. However, there can be no assurance that the Company will pay dividends or the level of any such dividends. See Section 2.3.12 (*Risks related to payment of dividends on the Shares*).

#### 4.5.3.7 *Operate sustainably by leveraging technology and innovation*

The Company's climate change strategy aims to grow its business sustainably by leveraging technology and innovation to lower its climate impact. The Company intends to maintain its position as a leader in Scope 1 upstream carbon intensity, with one of the lowest carbon footprints per unit of hydrocarbons produced. It is also pursuing a wide range of initiatives to further lower its carbon intensity. For example, the Company's natural gas programme is increasing the percentage of gas used to meet the Kingdom's energy needs. The Company is also collaborating with other major companies to share best practices and devise common solutions to climate change, including through participation in the Oil and Gas Climate Initiative forum.

## 4.6 **Competitive Strengths**

### 4.6.1 *Upstream Competitive Strengths*

#### 4.6.1.1 *Unrivalled scale of crude oil and condensate production and conventional proved reserves*

In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate) and its total liquids production of 11.6 million barrels per day was over 20% higher than the combined total liquids production of the Five Major IOCs. As at 31 December 2018G, the Company's proved liquids reserves were 226.8 billion barrels, which was the largest amount of conventional proved liquids reserves of any company in the world and approximately five times larger than the combined proved liquids reserves of the Five Major IOCs. Further, the Company believes that its portfolio includes the world's largest discovered conventional onshore oil field (Ghawar) and largest discovered conventional offshore oil field (Safaniyah).

#### 4.6.1.2 *Long reserves life, with long-term track record of low-cost reserves replacement*

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2018G, the Company's reserves were 256.9 billion barrels of oil equivalent. Based on a comparison of reserves data of the Five Major IOCs and other leading oil and gas companies, as at 31 December 2018G, the Company's oil equivalent reserves were sufficient for proved reserves life of 52 years, which was significantly longer than the 9 to 17 year proved reserves life of any of the Five Major IOCs. The Company has historically replaced the Kingdom's reserves in a low-cost manner and on an organic basis through revisions of reserve estimates at existing fields and through delineation and exploration to identify new fields.

#### 4.6.1.3 *Unique ability to capture value through active management of the world's largest conventional hydrocarbons reserves base*

The Company actively manages its prolific reserves base in accordance with the Kingdom's laws and regulations to maximise long-term value while optimising ultimate recovery from its fields. Because of the size and number of its fields and spare capacity, the Company is able to maintain its desired level of overall production by tapping

into new reservoirs when required to improve long-term value through portfolio capacity optimisation. This approach, which differs from the typical industry practice of maximising production rates per field, is more capital efficient given the nature of the resources available and leads to more stable production and higher ultimate oil recoveries.

#### 4.6.1.4 *Unique operational flexibility to respond to changes in supply and demand*

The spare capacity afforded by maintaining MSC enables the Company to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. The Company utilised 100,000 or more barrels per day of its spare capacity in 56% of the months occurring during the 6-year period from 2013G to 2018G and used 500,000 or more barrels per day in 22% of those months. The Company estimates that the cumulative revenue generated during that period by utilising this spare capacity was SAR 133.0 billion (\$35.5 billion). This additional revenue stems from periods where actual monthly production (made possible by MSC) was in excess of the average planned production level. This spare capacity also provides the Company operational flexibility, providing an alternative supply option in the event of unplanned production outages at any field and allowing it to maintain its production levels during routine field maintenance.

#### 4.6.1.5 *Multiple crude grades and global crude oil delivery points*

The five grades of Arabian crude oil the Company produces are highly compatible with most refineries globally. In addition, the Company's multiple in-Kingdom and international crude oil delivery points comprise an established network of access points to the global market, enabling it to maximise delivery options based on variations in demand and position it as the major base load crude supplier. Furthermore, the Company's MSC and integrated logistics network, including crude oil in storage facilities, allow it to vary crude oil production, which combined with their compatibility with global refining systems, provides the Company with a unique ability to respond to changes in demand for the Company's crude oil grades.

#### 4.6.1.6 *Extensive high-quality gas reserves with exclusive access to the large and growing domestic marketplace*

As at 31 December 2018G, the Company had 185.7 trillion standard cubic feet of proved natural gas reserves. In 2018G, the Company's natural gas production of 8.9 billion standard cubic feet per day and 1.0 billion standard cubic feet per day of ethane with an additional 0.2 million barrels per day of unblended condensate and 1.1 million barrels per day of NGLs. The liquids stemming from gas enhance the value of production since condensate and NGLs generally command a higher margin than natural gas.

The Company is the exclusive supplier of natural gas in the Kingdom. According to the Industry Consultant, natural gas demand in the Kingdom is expected to grow at a CAGR of 3.6% from 2017G to 2030G. This increase is primarily due to demand from power generation and the refining and industrial sectors. As a result, from 2003G to 2018G, the Company significantly expanded its gas processing capacity and intends to continue to expand its capacity over the next few years.

#### 4.6.1.7 *Crude oil extraction with a low average carbon intensity*

Climate change concerns may cause demand for crude oil with lower average carbon intensities to increase relative to those with higher average carbon intensities. The Company has a commitment to emissions reduction and a GHG emissions management programme. The Kingdom has a small number of large and productive oil reservoirs, low per barrel gas flaring rates and low water production, resulting in less mass lifted per unit of oil produced and less energy used for fluid separation, handling, treatment and reinjection, all of which contribute to low upstream carbon intensity. Based on the Company's 2018G upstream total deliveries of 13.2 million barrels of oil equivalent per day, the Company's 2018G upstream carbon intensity was 10.2 kilograms of carbon dioxide equivalent per barrel of oil equivalent. According to an article published in the 31 August 2018G edition of Science Magazine, the Kingdom's volume weighted average crude oil upstream GHG intensity in 2015G ranked second lowest among the 50 countries analysed. Two of the 24 authors of such article received funding from a subsidiary of the Company and other authors received funding from other sources.

#### 4.6.1.8 *Lowest lifting costs and capital expenditures per barrel of oil equivalent*

The Company's lifting costs are among the lowest in the world due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which its reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low

depletion rate operational model and its scaled application of technology. Following the Industry Consultant's methodology, for the year ended 31 December 2018G, the Company's average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced, which was lower than that of each of the Five Major IOCs based on a comparison with lifting cost data provided by the Industry Consultant. The Company's upstream capital expenditures for the six months ended 30 June 2019G averaged SAR 15.8 (\$4.2) per barrel of oil equivalent produced also using the Industry Consultant's methodology. For the year ended 31 December 2018G, the Company's upstream capital expenditures averaged SAR 17.7 (\$4.7) per barrel of oil equivalent produced, which was lower than that of each of the Five Major IOCs based on a comparison with capital expenditure data provided by the Industry Consultant. This low-cost base enables the Company to generate material cash flow from operations during periods of relatively high crude oil prices, while enabling it to maintain positive cash flow from operations during periods of relatively low prices.

#### 4.6.2 *Downstream Competitive Strengths*

##### 4.6.2.1 *Ability to monetise upstream production into a high-quality external customer base and through a captive downstream system, with a strong track record of supply reliability*

The Company has a strong track record as a reliable crude oil supplier, meeting 99.7%, 99.8% and 99.9% of its delivery obligations on time in 2017G, 2018G and the first six months of 2019G, respectively. In 2018G, 62% of crude production was sold through long-term crude oil supply agreements to a high-quality external customer base. The Company maintains these longstanding strategic customer supply relationships through the unique level of volumes it makes available to the market, its supply reliability and crude quality. In addition, the integration of the Company's upstream and downstream segments provides the opportunity to place crude oil into the Company's downstream system, which is optimally designed to process Arabian crude oils. In 2018G, 38% of crude oil produced by the Company was delivered into this captive downstream system.

##### 4.6.2.2 *Largest customer for the Company's upstream production*

The Company's upstream business provides the substantial majority of crude oil processed by its downstream business, making it upstream's biggest customer and securing feedstock for the downstream business. For the years ended 31 December 2016G, 2017G and 2018G, downstream consumed 36%, 39% and 38% of upstream's total crude oil production in those periods. The Company specifically designs and configures its refining system to optimise production using the Company's crude grades, which helps improve supply chain cost and operational efficiency in its refining operations and therefore supply of refined products to the downstream markets the Company serves. The Company's upstream business provides all the crude oil processed by the Company's wholly owned and affiliated refineries in the Kingdom. In addition, the Company supplies a higher percentage of the crude oil used by its international refineries than its aggregate equity ownership. In 2018G, the Company's weighted average ownership percentage in its international refineries was 58%, but it supplied an average of 68% of the crude oil used by those refineries.

##### 4.6.2.3 *Fourth largest integrated refiner in the world on a net refining capacity basis, supplying high-value products to the Kingdom and internationally in large and high growth markets*

The Company's net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with the most recently available third party refining capacity data as provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day and net refining capacity of 3.1 million barrels per day. The Company's operations in the Kingdom, including its affiliated refineries, accounted for 62% of its net refining capacity in 2018G. This local supply provides unique access to the large domestic marketplace. In addition, the Company is focussing its downstream investments in high-growth economies, including China, India and Southeast Asia, material demand centres, such as the United States, and countries that rely on importing crude oil, such as Japan and South Korea.

##### 4.6.2.4 *Refining scale and complexity and enhanced integration*

The Company's in-Kingdom affiliated refineries and international refineries have been designed to have both scale and significant product upgrading capabilities, resulting in high refining complexity metrics.

Refineries with higher complexity are generally more technically advanced and able to extract higher value from the crude oil they process by producing greater yields of high-margin products. This refining complexity, together with the Company's global integrated petrochemical production capacity, provides the Company with competitive refining assets in the geographies it serves and enables the Company to produce greater yields of



high-margin downstream products than less complex refineries. These refining assets also provide an important platform upon which the Company expects to grow its integrated refining and petrochemicals business.

As at 31 December 2018G, the weighted average NCI of the Company's in-Kingdom wholly owned refineries, in-Kingdom affiliated refineries and international refineries was 4.9, 9.6 and 9.8, respectively.

#### 4.6.2.5 *Expected to become a major petrochemicals producer globally*

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for \$69.1 billion. Upon closing of the SABIC transaction, the Company is expected to be a major petrochemical producer globally by production capacity. In addition, the Company's chemicals business will operate in over 50 countries, produce a range of chemicals and is expected to have the largest net production capacity for ethylene and be amongst the top four companies by net production capacity for polyethylene, monoethylene glycol and polypropylene, according to the Industry Consultant. The Company expects the proposed acquisition of SABIC to be transformative to its strategy in chemicals and expand its downstream capabilities in sales, marketing, engineering and technology. Moreover, the Company is the principal feedstock supplier to SABIC and expects to further enhance its integration from upstream production to petrochemical manufacturing.

#### 4.6.2.6 *World class partners*

The Company's partners in its joint ventures, joint operations and associate companies include Dow, ExxonMobil, Petronas, Sinopec, Sumitomo and Total. These partnerships provide the Company's joint ventures and joint operations with access to additional geographies, technological expertise, operational know-how and marketing capabilities.

### 4.6.3 *Company Competitive Strengths*

#### 4.6.3.1 *Higher operating cash flow, Free Cash Flow, EBIT, EBITDA and ROACE than each of the Five Major IOCs*

As shown below, the Company has a higher operating cash flow, higher Free Cash Flow, higher EBIT, higher EBITDA and higher ROACE than each of the Five Major IOCs.

**Table 9: Comparison of the company's operating cash flow, free cash flow, EBIT, EBITDA and ROACE against the Five Major IOCs**

	Company <sup>(1)</sup>	Five Major IOCs <sup>(2)</sup>
Operating cash flow in 2018G <sup>(3)</sup>	SAR 453.7 (\$121.0)	Between \$23 and \$53
Free Cash Flow in 2018G <sup>(3)(4)</sup>	SAR 321.9 (\$85.8)	Between \$6 and \$30
EBIT in 2018G <sup>(3)(4)</sup>	SAR 798.0 (\$212.8)	Between \$19 and \$39
EBITDA in 2018G <sup>(3)(4)</sup>	SAR 839.3 (\$223.8)	Between \$34 and \$61
ROACE as of 31 December 2018G <sup>(4)</sup>	41.1%	Average of 8%

(1) *Source:* Company.

(2) *Source:* Public Filings.

(3) SAR and \$ in billions.

(4) Free Cash Flow, EBIT, EBITDA and ROACE are non-IFRS financial measures. For a definition of Free Cash Flow, EBIT, EBITDA and ROACE and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see Sections 7.4.3 (*Free Cash Flow*), 7.4.6 (*EBIT and EBITDA*) and 7.4.5 (*Return on Average Capital Employed (ROACE)*).

#### 4.6.3.2 *Lower Gearing than each of the Five Major IOCs*

As at 30 June 2019G, the Company had a Gearing ratio of 2.4%, which was lower than each of the Five Major IOCs as at that date, whose Gearing was between 12% and 31%. Gearing is a non-IFRS financial measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see Section 7.4.4 (*Gearing*). The Company aims to maintain a target level of Gearing between 5% and 15%.

#### 4.6.3.3 *Ability to execute some of the world's largest upstream and downstream capital projects*

The Company has a long track record of successfully executing some of the world's largest upstream and downstream capital projects in the oil, gas and petrochemical industries. From 2014G to 2018G, the Company executed 22 projects with capital expenditures of more than SAR 1.9 billion (\$500 million) each.

## 4.7 Operating Segments

The Company's primary operating segments are its upstream segment and downstream segment. The upstream segment's activities consist of exploring for, developing and producing crude oil, condensate, gas and NGLs. The downstream segment's activities consist primarily of refining and petrochemical manufacturing and supply, trading and marketing operations. The Company's business support activities are included within its corporate segment. As at the date of this Prospectus, the Company has no new material activities or products that are not described herein.

### 4.7.1 Upstream

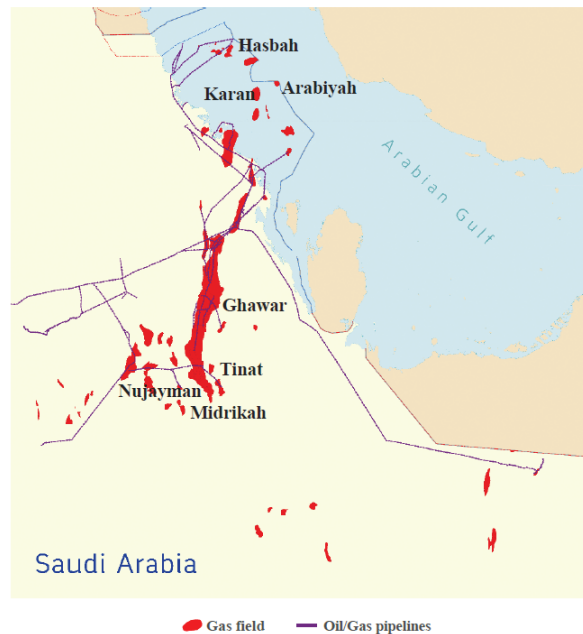
The upstream segment's activities consist of exploring for, developing and producing crude oil, condensate, natural gas and NGLs. Pursuant to the Concession, the Company has exclusive access to all hydrocarbons within the Kingdom, except the Excluded Areas, including 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters as at 31 December 2018G. See Section 13.5.1 (*The Concession*). The majority of the Company's reservoirs are geographically clustered in the Eastern Province of the Kingdom and adjacent Arabian Gulf. The following maps illustrate the location of the Company's key fields in the Kingdom.

#### Exhibit 13: The location of the Company's key fields in the Kingdom

Major Oil Fields



Major Gas Fields



Source: Company.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2018G, the Company's reserves were 256.9 billion barrels of oil equivalent (sufficient for proved reserves life of 52 years). The Company's proved crude oil and condensate reserves were 201.4 billion barrels. In addition, as at 31 December 2018G, the Company had proved NGL reserves of 25.4 billion barrels and proved natural gas reserves of 185.7 trillion standard cubic feet. As at 31 December 2018G, the Company's proved liquids reserves were 226.8 billion barrels, which was approximately five times larger than the combined proved liquids reserves of the Five Major IOCs as at that date.

In the six months ended 30 June 2019G, the Company produced on average 13.2 million barrels per day of oil equivalent, including 10.0 million barrels per day of crude oil (including blended condensate).

In 2018G, the Company produced 13.6 million barrels per day of oil equivalent, including 10.3 million barrels per day of crude oil (including blended condensate), an additional 0.2 million barrels per day of unblended condensate, 1.1 million barrels per day of NGLs, 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. In that year, 86% of the Company's aggregate hydrocarbon production consisted of liquids, which generally command a higher margin than natural gas.

The Company's lifting costs are among the lowest in the world due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which the Company's reservoirs are located, synergies available from the Company's use of its large infrastructure and logistics networks, its low depletion rate operational model and its scaled application of technology. For the year ended 31 December 2018G, the Company's lifting costs averaged SAR 10.6 (\$2.8) per barrel of oil equivalent produced using a normalised estimation approach following the Industry Consultant's methodology, and its upstream capital expenditures averaged SAR 17.7 (\$4.7) per barrel of oil equivalent produced. For the year ended 31 December 2018G, the Company's average upstream lifting costs and upstream capital expenditures per barrel of oil produced were lower than those of each of the Five Major IOCs, based on lifting cost and capital expenditure data provided by the Industry Consultant.

#### 4.7.1.1 Reserves

As at 31 December 2018G, the Kingdom's reserves in the fields the Company operates consisted of 336.2 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.1 billion barrels of NGLs and 233.8 trillion standard cubic feet of natural gas, including 143.2 trillion standard cubic feet of non-associated gas.

Under the Original Concession, which was in effect until 24 December 2017G, the Company's rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Accordingly, until such date, the Kingdom's reserves in the fields the Company operated were the same as the Company's reserves. Effective 24 December 2017G, the Concession limited the Company's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, to an initial period of 40 years, which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. In addition, the Concession may be extended for an additional 40 years beyond the prior 60 year period subject to the Company and the Government agreeing on the terms of the extension. See Section 13.5.1 (*The Concession*). The provision of a specified term in the Concession impacts the calculation of the Company's reserves as compared to the Kingdom's reserves in the fields the Company operates. The Concession also requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG through domestic production or imports.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2018G, the Company's reserves were 256.9 billion barrels of oil equivalent. The Company's oil equivalent reserves consisted of 201.4 billion barrels of crude oil and condensate, 25.4 billion barrels of NGLs and 185.7 trillion standard cubic feet of natural gas. As at 31 December 2018G, the Company's portfolio included 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters. Based on a comparison of reserves data of the Five Major IOCs, as at 31 December 2018G, the Company's oil equivalent reserves were sufficient for proved reserves life of 52 years, which was significantly longer than the 9 to 17 year proved reserves life of any of the Five Major IOCs based on publicly available information.

The Company manages the Kingdom's unique reserves and resources base to optimise production and maximise long-term value pursuant to the Hydrocarbons Law, which mandates that the Company's hydrocarbon operations promote long-term productivity of the Kingdom's reservoirs and support the prudent stewardship of its hydrocarbon resources. The Company has historically replaced reserves on an organic basis through revisions of reserve estimates at existing fields and through delineation and exploration to identify new fields. As a result, the Kingdom's estimated proved reserves at the largest oil fields operated by the Company have increased since the time of original production. For example, the original reserves at the Abqaiq field have increased over 13.5 times from 1.2 billion barrels of crude oil in 1944G, when production began at the field, to 16.3 billion barrels of crude oil in 2018G. The organic crude oil and condensate reserves replacement ratio based on the Kingdom's reserves on a three year rolling average from 2016G to 2018G was 104%. The organic oil equivalent reserves replacement ratio based on the Kingdom's reserves on a three year rolling average from 2016G to 2018G was 127%. Reserves replacement ratios are calculated on reserves changes relative to net reservoir withdrawal from operated fields, rather than production volumes.

The following table sets forth the Company's estimates of its proved reserves based on the term of the Concession as at 31 December 2017G and 2018G.

**Table 10: The Company's estimates of its proved reserves of crude oil, condensate, natural gas and NGLs based on the term of the Concession as at 31 December 2017G and 2018G**

	Crude Oil (mmbbl)	Condensate (mmbbl)	Natural Gas (bscf) (mmeob)		NGLs (mmbbl)	Combined (mmeob)
Reserves as at 31 December 2017G . . . . .	201,818	3,015	180,957	29,377	26,024	260,234
Reserves as at 31 December 2018G . . . . .	198,194	3,191	185,726	30,120	25,385	256,890

Source: Company.

The following table sets forth the Kingdom's estimates of its proved reserves in the fields the Company operates as at 31 December 2017G and 2018G.

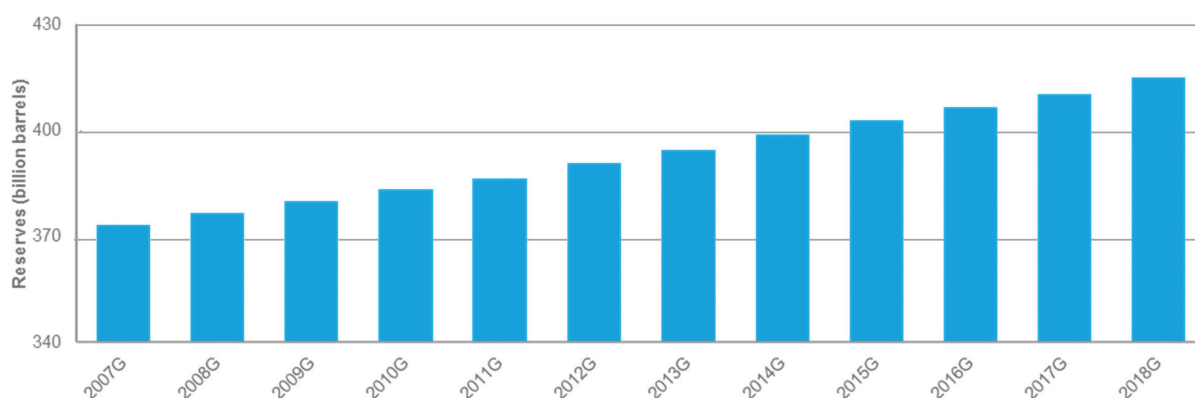
**Table 11: The Kingdom's estimates of its proved reserves of crude oil, condensate, natural gas and NGLs in the fields the Company operates as at 31 December 2017G and 2018G**

	Crude Oil (mmbbl)	Condensate (mmbbl)	Natural Gas (bscf) (mmeob)		NGLs (mmbbl)	Combined (mmeob)
Reserves as at 31 December 2017G . . . . .	256,737	4,124	224,394	36,939	35,097	332,897
Reserves as at 31 December 2018G . . . . .	257,270	4,257	233,766	38,519	36,144	336,190

Source: Company.

The following chart shows the growth of the Kingdom's original crude oil and condensate reserves from 2007G to 2018G.

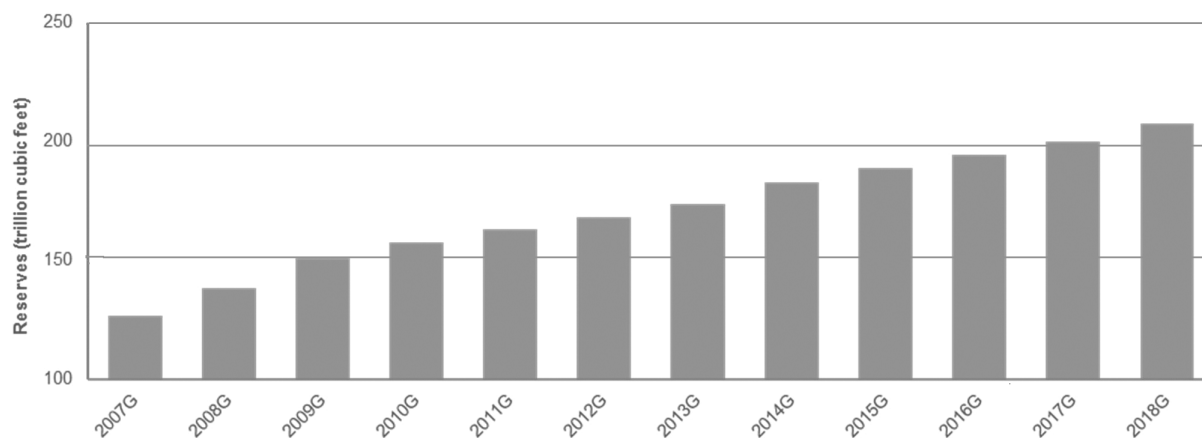
**Exhibit 14: The Kingdom's original crude oil and condensate reserves from 2007G to 2018G**



Source: Company.

The following chart shows the growth of the Kingdom's original non-associated raw gas reserves from 2007G to 2018G.

**Exhibit 15: The Kingdom's original non-associated raw gas reserves from 2007G to 2018G**



Source: Company.

The Company's reserve estimates conform to the SPE-PRMS definitions and guidelines, which is the internationally recognised industry standard sponsored by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts and the European Association of Geoscientists and Engineers. To estimate or update the Company's reserve estimates, the upstream segment employees responsible for reserves calculations perform technical analyses that are reviewed internally by progressively higher levels of management until finalised at year-end. The Company annually updates its estimates as it acquires and interprets new data. For reservoirs that have been producing and have established certain performance trends, the Company is typically able to reliably forecast the reservoir's future production. For reservoirs that have little to no production history and new discoveries, the Company undertakes further analysis in addition to multidisciplinary evaluation to formulate production forecasts.

The Company retained independent petroleum consultants, D&M, to independently evaluate reservoirs the Company believes accounted for approximately 85% of the Company's proved oil reserves to which the Company has rights under the Concession and remain to be produced after 31 December 2018G but before 31 December 2077G (the end of the initial 40-year term of the Concession plus the first 20-year extension). The Company chose this scope because of the overall scale of the Kingdom's reserves and the concentration of deposits in the major reservoirs that were assessed. Further independent assessment of the Company's smaller reservoirs would have taken several years to complete. D&M's reserves certification of 209.1 billion barrels of oil equivalent reserves was within 1% of the Company's internal estimation for the same reservoirs. A copy of the D&M certification letter, which describes its procedures, conclusions and assumptions, appears as Appendix A to this Prospectus.

The technical personnel responsible for preparing the certification of the reserve estimates at D&M meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth by the Society of Petroleum Engineers. D&M is an independent consultancy firm and does not own an interest in the Company's properties and is not employed on a contingent fee basis.

#### 4.7.1.2 Upstream Production and Deliveries

The following table highlights the Company's upstream production and deliveries in 2016G, 2017G and 2018G.

**Table 12: Production and delivery volumes of upstream products for 2016G, 2017G and 2018G**

	Year Ended 31 December		
	2016G	2017G	2018G
<b>Upstream production<sup>(1)</sup>:</b>			
Crude oil <sup>(2)</sup> (mbpd) . . . . .	10,561	10,080	10,315
Condensate <sup>(3)</sup> (mbpd) . . . . .	228	216	218
Natural gasoline (mbpd) . . . . .	182	194	203
Butane (mbpd) . . . . .	313	314	328
Propane (mbpd) . . . . .	541	521	565
<b>Total liquids (mbpd) . . . . .</b>	<b>11,825</b>	<b>11,325</b>	<b>11,629</b>
Natural gas (mmscfd) . . . . .	8,280	8,733	8,856
Ethane (mmscfd) . . . . .	920	936	993
<b>Total (mmscfd) . . . . .</b>	<b>9,200</b>	<b>9,669</b>	<b>9,849</b>
<b>Combined<sup>(4)</sup> (mboed) . . . . .</b>	<b>13,634</b>	<b>13,223</b>	<b>13,567</b>
<b>In-Kingdom deliveries<sup>(5)</sup>:</b>			
Crude oil to third parties (mbpd) . . . . .	498	459	410
Crude oil to refineries <sup>(2)(6)</sup> (mbpd) . . . . .	2,532	2,607	2,567
Condensate to refineries <sup>(6)</sup> (mbpd) . . . . .	221	195	203
Natural gasoline to affiliated parties and third parties (mbpd) . . . . .	128	120	153
Butane to third parties (mbpd) . . . . .	142	146	157
Propane to third parties (mbpd) . . . . .	358	375	385
<b>Total liquids (mbpd) . . . . .</b>	<b>3,880</b>	<b>3,902</b>	<b>3,875</b>
Natural gas (mmscfd) <sup>(7)</sup> . . . . .	6,871	7,212	7,216
Ethane (mmscfd) . . . . .	913	950	1,009
<b>Total (mmscfd) . . . . .</b>	<b>7,784</b>	<b>8,162</b>	<b>8,225</b>
<b>Combined (mboed) . . . . .</b>	<b>5,427</b>	<b>5,523</b>	<b>5,514</b>
<b>International deliveries<sup>(5)</sup>:</b>			
Crude oil to third parties (mbpd) . . . . .	6,177	5,787	6,021
Crude oil to refineries <sup>(6)</sup> (mbpd) . . . . .	1,286	1,312	1,308
Condensate (mbpd) . . . . .	7	21	15
Natural gasoline to third parties (mbpd) . . . . .	72	72	94
Butane to third parties (mbpd) . . . . .	151	145	151
Propane to third parties (mbpd) . . . . .	149	128	142
<b>Total (mbpd) . . . . .</b>	<b>7,842</b>	<b>7,465</b>	<b>7,731</b>

Source: Company.

- (1) Production does not include volumes produced from Abu Sa'fah delivered to the Kingdom of Bahrain, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016G, 2017G and 2018G, respectively.
- (2) Includes condensate blended with crude oil of 116 mbpd, 121 mbpd and 125 mbpd for the years ended 31 December 2016G, 2017G and 2018G, respectively.
- (3) Stabilised condensate not blended with crude oil.
- (4) Combined barrel of oil equivalent volume (mboed) is derived from mmscfd (for natural gas and ethane) by dividing the relevant product production by 5.400 (in the case of natural gas) and 3.330 (in the case of ethane).
- (5) Deliveries do not include loss in volumes measured upon loading and unloading of crude oil shipments, volumes of production held in inventory at period end, volumes consumed for own use and trading volumes.
- (6) Includes wholly owned and affiliated refineries.
- (7) Does not include the Company's own use of gas.

#### 4.7.1.3 Crude Oil and Condensate

As at 31 December 2018G, the Company operated 101 crude oil fields, including some of the world's largest in terms of proved reserves.

### (a) Exploration and Development

The majority of the Company's current crude oil exploration activities are focussed in the Eastern Province, with lower levels of exploration and expenditures in known hydrocarbon-bearing basins in the Rub' al-Khali, Northwest and Summan regions.

The Company places a strong emphasis on operational performance improvement of its drilling operations by applying innovative drilling technologies and benchmarking of key metrics to identify trends and potential areas for improvement. The Company believes that its approach to drilling and development has led to high levels of well integrity.

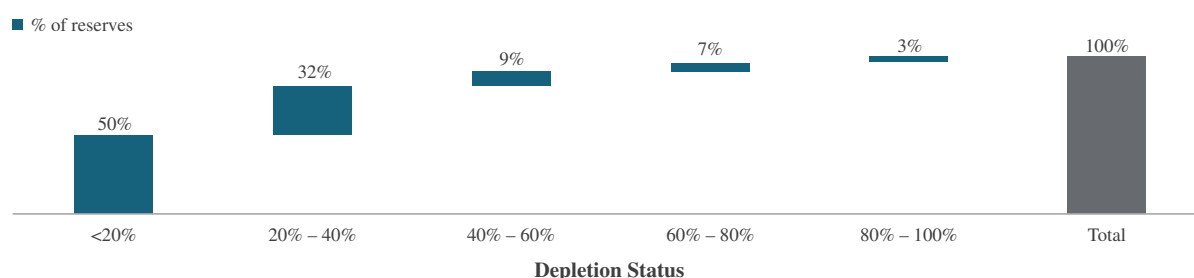
### (b) Reservoir Management and Production Strategy

The Company actively manages its prolific reserves base in accordance with the Kingdom's laws and regulations to maximise long-term value while optimising ultimate recovery from its fields. Because of the size and number of its fields and spare capacity, the Company is able to maintain its desired level of overall production by tapping into new reservoirs when required to improve long-term value through portfolio capacity optimisation. This approach, which differs from the typical industry practice of maximising production rates per field, is more capital efficient given the nature of the resources available and leads to stable production and higher ultimate oil recoveries. The Company's reservoir management and production strategy is characterised by its commitment to responsible and sustainable stewardship of its unique fields, ability to optimise supply and value in the event of a market disruption or opportunity and high-quality crude with blend and supply flexibility.

#### (i) Responsible and Sustainable Stewardship of Unique Fields

Most of the Company's crude oil fields have been producing for many decades at low depletion rates of 1% to 2% per year relative to estimated ultimate recovery. As at 31 December 2018G, more than 80% of the Kingdom's proved crude oil reserves were in reservoirs that were less than 40% depleted. The following chart illustrates the depletion stage of the Kingdom's crude oil reservoirs as at 31 December 2018G.

**Exhibit 16: Depletion stage for the Kingdom's crude oil reservoirs as at 31 December 2018G**



Source: Company.

The Company also aims to optimise recovery of its reserves. As at 31 December 2018G, approximately 80% of the Kingdom's crude oil reserves had a recovery factor between 41% and 80% due to the high-quality of the reservoirs.

The Company's main recovery mechanism for its oil reservoirs is peripheral water injection, which maintains reservoir pressure, maximises reservoir sweep and minimises water produced over time. In a few fields, the Company employs other methods, such as re-injection of produced gas in gas caps. Given its low depletion stage, the Company expects to continue to use these recovery mechanisms, combined with advanced technologies (for example, horizontal and multilateral wells, including wells that come into contact with more than five kilometres of the reservoir), to optimise horizontal and vertical reservoir sweep.

#### (ii) Ability to Optimise Supply and Value in the Event of a Market Disruption or Opportunity

The uniqueness of the Company's reserves base provides flexibility to optimise its crude mix in response to changes in supply and demand. The Company considers the long-term value of different crude grades, medium-term ability to market heavy crude oil grades in strategic markets and near-term requirements to efficiently respond to global market disruptions or opportunities.

The Government determines the Kingdom’s maximum level of crude oil production in the exercise of its sovereign prerogative and requires the Company to maintain MSC. The Company maintains MSC in accordance with the Hydrocarbons Law. In 2017G, MSC averaged 11.7 million barrels of crude oil per day and it reached 12.0 million barrels of crude oil per day as at 31 December 2018G. The spare capacity afforded by maintaining MSC enables the Company to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. The Company also uses this spare capacity as an alternative supply option in case of unplanned production outages at any field and to maintain its production levels during routine field maintenance. In addition, the Company holds volumes in various storage facilities to supplement operational flexibility and supply reliability.

The Company estimates that the cumulative revenue generated during the 6-year period from 2013G to 2018G, inclusive, by utilising this spare capacity was SAR 133.0 billion (\$35.5 billion).

### (iii) High-Quality Crude with Blend and Supply Flexibility

The Company has consistently produced five grades of Arabian crude oil: Arabian Super Light, Arabian Extra Light, Arabian Light, Arabian Medium and Arabian Heavy. The Company’s five crude grades and the wide range of blends that can be produced from them are compatible with most refineries globally. In addition, the Company’s MSC and integrated logistics network allows the Company to vary crude oil production, which combined with their compatibility with global refining systems, provides the Company with a unique ability to respond to changes in demand for the Company’s crude grades. This flexibility contributes to the Company’s reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.9% of its delivery obligations on time in 2017G, 2018G and the first six months of 2019G, respectively.

Crude oil quality is measured primarily based on density, which is measured as API gravity, and sulphur content. API gravity is the specific gravity scale developed by the American Petroleum Institute. It represents the inverse measure of liquid hydrocarbon density against water, with lighter hydrocarbon liquids having higher API gravities. API gravity is used to classify crude oil by weight (i.e., light, medium, heavy), which is the largest determinant of market value. Crude oil with higher API gravities is more valuable because it allows refineries to produce a greater percentage of high-margin products from the oil, such as gasoline and diesel fuel, than those with lower API gravities. Sulphur content also affects the value of crude oil. Since sulphur must be removed prior to crude oil being refined into other products, crude oil with lower sulphur content has a higher value.

The Company classifies Arabian Super Light, Arabian Extra Light and Arabian Light as premium grades given their API gravity and sulphur contents. The following table sets forth the API gravity and sulphur content of each of the Company’s crude oil grades and the percentage of crude oil reserves each grade accounted for as at 31 December 2018G.

**Table 13: The API gravity and sulphur content of the Company’s crude oil grades and the percentage of proved reserves as at 31 December 2018G**

	API Gravity	Sulphur Content	% of Proved Crude Oil Reserves
Arabian Super Light	More than 40	Less than 0.5	0.8
Arabian Extra Light	36 – 40	0.5 – 1.3	12.3
Arabian Light	32 – 36	1.3 – 2.2	34.3
Arabian Medium	29 – 32	2.2 – 2.9	17.7
Arabian Heavy	Less than 29	More than 2.9	34.9

Source: Company.

### (c) Principal Oil Fields

The Company’s principal fields are linked to an extensive network of integrated facilities that provide it with the flexibility to send crude oil to multiple plants for processing, stabilisation and shipping.

This extensive integration is also reflected in the Company’s approach to portfolio capacity management. The Company actively manages its prolific reserves base to maximise long-term value while optimising ultimate recovery from its fields. The Company’s resource base allows it to maintain its desired level of overall production by tapping into new reservoirs as costs rise in maturing areas, enhancing capital efficiency, increasing overall stability of production and ultimately improving total oil recoveries. Diversification of supply sources for crude oil from fresh reservoirs has the benefit of allowing lower depletion rates from existing fields and deferring costs for additional wells and facilities to handle higher total fluid displacement rates at such fields. The



Company's reservoir management and production strategy of producing reservoirs and fields in parallel at low depletion rates allows the Company to maintain MSC at 12.0 million barrels of crude oil per day while controlling field related costs. See Section 4.7.1.3(b) (*Reservoir Management and Production Strategy*).

The following table sets forth the Company's reserves for the Concession term and MSC of five principal fields as at 31 December 2018G.

**Table 14: Key characteristics of certain of the Company's principal oil fields by reserves listed as at 31 December 2018G**

	Liquids Reserves <sup>(1)</sup> (mmbbl)	Combined Reserves (mmboe)	MSC (mmbpd)
Ghawar .....	48,254	58,319	3.800
Khurais .....	20,100	21,402	1.450
Safaniyah .....	33,664	34,029	1.300
Shaybah .....	13,617	14,864	1.000
Zuluf .....	30,417	31,313	0.825
Other .....	80,718	96,963	3.625
<b>Total</b> .....	<b>226,770</b>	<b>256,890</b>	<b>12,000</b>

Source: Company.

(1) Liquids reserves consist of crude oil, condensate and NGLs.

Over the past 15 years, the Company has chosen to diversify its crude oil supply sources by adding additional production capacity from large young fields. For example, since 2004G the Company has expanded its Arabian Extra Light production capacity at Shaybah from 500,000 barrels per day to 1.0 million barrels per day, expanded its Arabian Light production capacity at Khurais to 1.45 million barrels per day and its Arabian Heavy production capacity at Manifa to 900,000 barrels per day. In addition, production of Arabian Heavy crude from Manifa supports feedstock requirements for two new in-Kingdom complex refineries (SATORP and YASREF) and the expansion of production capacity at Shaybah both increased oil production and allows for NGL recovery to support the petrochemical industry.

D&M's reserves certification as at 31 December 2018G included evaluating reservoirs at the five principal oil fields. See Appendix A to this Prospectus. The following descriptions provide further details concerning these five principal oil fields and producing areas.

#### Ghawar

The northern-most portion of the Ghawar field lies approximately 100 kilometres west of Dhahran. The field comprises six main areas (Fazran, Ain Dar, Shedgum, 'Uthmaniyah, Hawiyah and Haradh) and extends southward over more than 200 kilometres as one long continuous anticline. It is approximately 36 kilometres across at its widest point (where the Ain Dar and Shedgum areas run in parallel and are 26 kilometres and 10 kilometres wide, respectively).

The Company believes that the Ghawar field is the largest oil field in the world in terms of conventional proved reserves, totalling 58.32 billion barrels of oil equivalent as at 31 December 2018G for the Concession term, including 48.25 billion barrels of liquids reserves. The Kingdom's original reserves of the Ghawar field increased from 19.0 billion barrels of crude oil in 1951G, when production began at the field, to 127.7 billion barrels of crude oil in 2018G. The Ghawar field has accounted for more than half of the total cumulative crude oil production in the Kingdom but still maintained MSC of 3.800 million barrels of crude oil per day as at 31 December 2018G.

The Ghawar field facilities and infrastructure remain a central component in the Company's long-term strategic framework for optimising both technical recovery of resources and the economics of resource management. The scope of the utilisation and maintenance of the established infrastructure has expanded to be a hub for development of secondary reservoirs and satellite fields. These massive facilities act as a lattice within which new oil and gas development projects can easily be added.

#### Khurais

The Khurais Complex, which comprises the Abu Jifan, Mazalij and Qirdi fields in addition to Khurais itself, is approximately 106 kilometres long and 18 kilometres across at its widest point. Although the Khurais field was discovered in 1957G, it was redeveloped by the Company starting in 2006G to add more crude oil production

capacity in response to market conditions. By 2009G, production capacity was 1.2 million barrels of crude oil per day.

As at 31 December 2018G, following completion of an expansion project that year, the MSC at Khurais was increased to 1.450 million barrels of crude oil per day. As at 31 December 2018G, proved reserves at Khurais were 21.40 billion barrels of oil equivalent for the Concession term, including 20.10 billion barrels of liquids reserves.

#### Safaniyah

The Company believes that the Safaniyah field is the world's largest conventional offshore oil field in terms of proved reserves. It is located approximately 260 kilometres north of Dhahran. Most of the field lies offshore in the Arabian Gulf. Within the Concession Area, the Safaniyah field is approximately 50 kilometres long and 15 kilometres wide. A small portion of the field, known as the Khafji field, lies in the offshore partitioned territory as set forth in the agreements between the Kingdom and the State of Kuwait and is jointly operated by AGOC and the national oil company of the State of Kuwait.

As at 31 December 2018G, the MSC at Safaniyah was 1.300 million barrels of crude oil per day and proved reserves were 34.03 billion barrels of oil equivalent for the Concession term, including 33.66 billion barrels of liquids reserves.

#### Shaybah

The Shaybah field was developed in the mid-1990Gs and is located in the Rub' Al-Khali desert in the south eastern part of the Kingdom, 800 kilometres from Dhahran. The field is approximately 13 kilometres wide and 64 kilometres long.

Due to the field's remoteness, its facilities include a dedicated NGL recovery unit, an airfield, and accommodation for staff. The field was developed using advanced 3D seismic imaging and multi-lateral horizontal drilling techniques, with processing facilities added in phases as production information became available. The Company increased the crude oil production capacity of the field from 500 thousand barrels of crude oil per day in 1998G to 750 thousand barrels of crude oil per day in 2009G and further increased to 1.0 million barrels of crude oil per day in 2016G. As at 31 December 2018G, the MSC at Shaybah was 1.000 million barrels of crude oil per day and proved reserves were 14.86 billion barrels of oil equivalent for the Concession term, including 13.62 billion barrels of liquids reserves.

#### Zuluf

The Zuluf field is located in the Arabian Gulf, approximately 240 kilometres north of Dhahran, in an average water depth of 118 feet. The field has two main structures: Zuluf and Ribyan. The Kingdom's original reserves at Zuluf increased from 11.6 billion barrels of crude oil in 1973G, when production began at the field, to 43.3 billion barrels of crude oil in 2018G.

As at 31 December 2018G, the MSC at Zuluf was 0.825 million barrels of crude oil per day and proved reserves were 31.31 billion barrels of oil equivalent for the Concession term, including 30.42 billion barrels of liquids reserves.

#### **(d) Recent Upstream Development Projects**

The Company has a long track record of executing some of the world's largest upstream capital projects in the oil and gas industry. Since the mid-1990Gs, the Company has executed a series of large development projects in a variety of its fields, including Manifa, Karan, Shaybah and Khurais. Additionally, on 9 July 2019G, the Company entered into various agreements with an aggregate value of \$18 billion to increase the combined crude oil and natural gas production capacities at the combined Berri and Marjan fields by 550,000 barrels per day and 2.5 billion standard cubic feet per day, respectively. The Berri expansion will add 250,000 barrels per day of crude oil production capacity through a new processing system at the existing Abu Ali gas oil separation plant and new onshore and offshore wells. The Marjan programme comprises an integrated development of crude oil, associated gas and non-associated gas production capacity. Crude oil production capacity at Marjan will be expanded by 300,000 barrels per day. Furthermore, the new Tanajib gas processing facility will have a gas processing capacity of 2.5 billion standard cubic feet per day.

The Company took an innovative approach to develop the Manifa field which began production in 2013G. The Manifa field is located offshore in shallow waters of the Arabian Gulf where the Company was able to construct

27 man-made islands connected by a series of causeways. This network of offshore islands afforded the Company the ability to employ lower-cost onshore drilling and production techniques to develop an offshore field. The islands house shallow wells, which allowed capital expenditure to be approximately 27% below a standard offshore development. As at 31 December 2018G, the MSC at Manifa was 0.9 million barrels of crude oil per day, representing one of the largest oil fields globally.

For information regarding Shaybah and Khurais, see Section 4.7.1.3(c) (*Principal Oil Fields*). For information regarding Karan, see Section 4.7.1.4(c) (*Principal Gas Fields*).

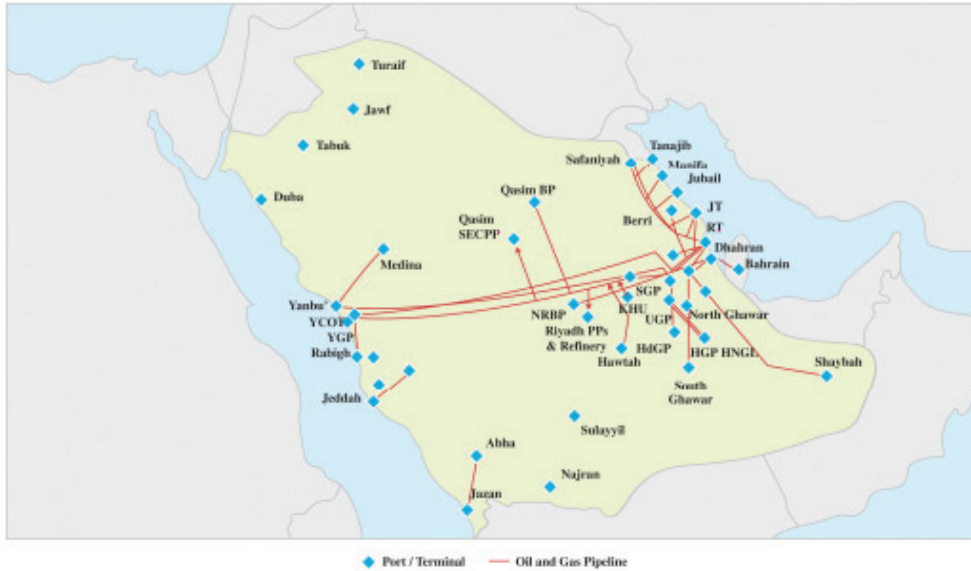
#### (e) **Crude Infrastructure**

The Company's principal fields are located in close proximity to each other within the Central and Eastern Provinces of the Kingdom. An extensive pipeline network connects the Company's fields, processing plants and other facilities. The crude oil, condensate, natural gas and NGLs the Company produces travel through its pipelines to multiple facilities for processing into refined products or to domestic customers or export terminals. For example, the Company can send crude oil to any of its domestic refineries or directly to export terminals.

In particular, the Company's East-West pipeline is critical in linking oil production facilities in the Eastern Province with Yanbu' on the west coast, and providing flexibility to export from the east and west coast of the Kingdom. In 2018G, the East-West pipeline transported an average of 2.1 million barrels per day of crude oil. By the end of 2019G, the capacity of the East-West pipeline is expected to increase from 5.0 million barrels per day to 6.2 million barrels per day of sustainable flow for six months using drag reducing additives and has the ability to temporarily increase to as much as 7.0 million barrels per day. In addition, the Abqaiq facility processes a significant amount of the Company's daily produced crude oil. The Abqaiq facility is the Company's largest oil processing facility and the largest crude oil stabilisation plant in the world. The Abqaiq facility processed approximately 50% of the Company's crude oil production for the year ended 31 December 2018G. Moreover, the Company operates four crude terminals with a total storage capacity of 66.4 million barrels as at 31 December 2018G, which contributes to its operational flexibility and supports supply reliability.

The Company closely tracks its hydrocarbons in order to monitor and optimise its deliveries. The Company has strategic international delivery points located in Rotterdam (Netherlands), Ain Sukhna (Egypt), Fujairah (United Arab Emirates) and Okinawa (Japan). The following map illustrates the location of the Company's crude oil processing infrastructure in relation to certain Company facilities.

**Exhibit 17: The location of the Company’s crude oil processing infrastructure in relation to certain Company facilities as at 31 December 2018G**



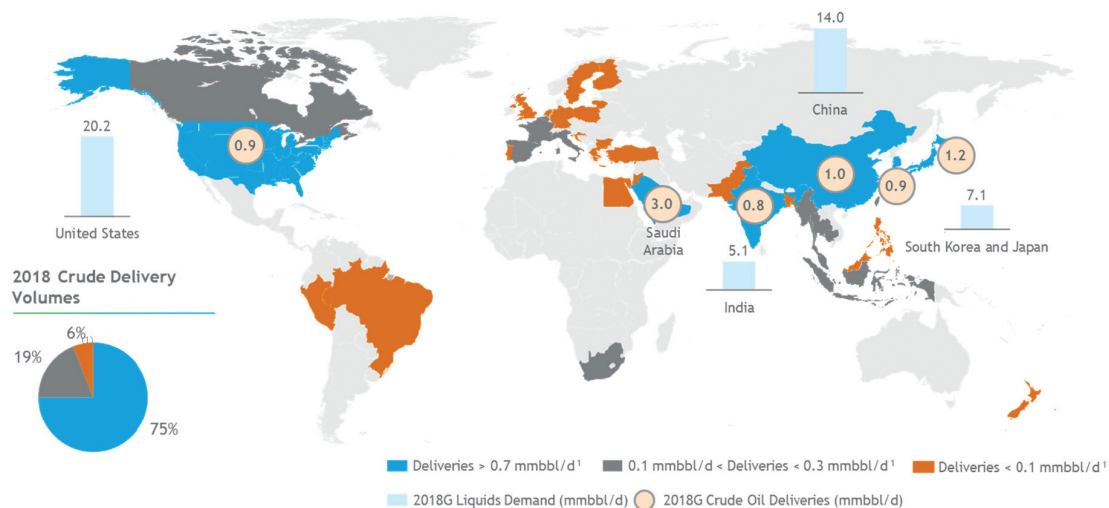
- HdGP** – Haradh Gas Plant
- HGP HNGL** – Hawiyah Gas Plant & Hawiyah NGL Recovery Plant
- JT** – Juaymah Terminal
- KHU** – Khurais
- NRBP** – North Riyadh Bulk Plant
- Qasim BP** – Qasim Bulk Plant
- Qasim SEC PP** – Qasim Saudi Electric Company Power Plant
- Riyadh PPs** – Riyadh Power Plants & Refinery
- RT** – Ras Tanura Terminal
- SGP** – Shedgum Gas Plant
- UGP** – ‘Uthmaniyah Gas Plant
- YCOT** – Yanbu Crude Oil Terminal
- YGP** – Yanbu’ Gas Plant

Source: Company.

**(f) Sales and Marketing**

The following chart illustrates the locations of the Company’s crude oil deliveries in 2018G.

**Exhibit 18: Locations of the Company’s crude oil deliveries in 2018G**



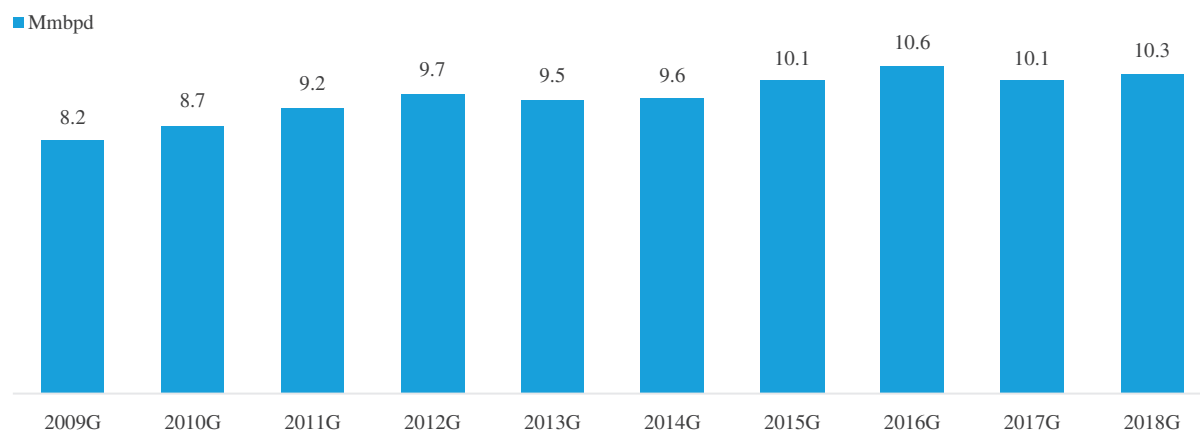
Source: Company.

(1) Includes deliveries to the Company’s wholly owned and affiliated refineries.

The integration of the Company across its upstream and downstream segments provides a unique opportunity for the Company to deliver its crude oil into the Company’s downstream system, which is optimally designed to

process Arabian crudes. Concurrently, the Company has maintained its crude oil market share across the commodity price cycle. The following chart illustrates the Company’s crude oil production from 2009G to 2018G.

**Exhibit 19: The Company’s crude oil production from 2009G to 2018G**



Source: Company.

The following chart illustrates the Company’s global crude oil production market share from 2009G to 2018G.

**Exhibit 20: The Company’s global crude oil production market share from 2009G to 2018G**



Source: Industry Consultant.

In 2018G, the Company produced 10.3 million barrels per day of crude oil (including blended condensate), of which approximately 6.4 million barrels per day were sold to third party customers, approximately 1.3 million barrels per day were delivered to the Company’s wholly owned and affiliated international refineries, approximately 1.9 million barrels per day were delivered to the Company’s downstream in-Kingdom affiliated refineries and approximately 0.7 million barrels per day were delivered to the Company’s wholly owned in-Kingdom refineries. As a result, the Company’s captive system of domestic and international wholly owned and affiliated refineries, consumed 38% of crude oil produced by the Company in 2018G. Sales prices of the Company’s crude oil to its in-Kingdom wholly owned refineries are based on reported selling prices for Arabian crude oil grades.

The Company’s crude oil sales agreements include pricing formulas that reflect the market prices in the relevant geographical region in which the oil will be delivered. The pricing formulas use “marker crudes” in each geographical region to determine a market-based price. The formulas also include price differentials for each grade in each region, which are set by the Company on a monthly basis, and reflect crude oil quality differences vis-à-vis the marker crude and other factors, such as the value of competing crudes, in-transit losses, freight

allowances and other commercial considerations. These formula prices are also used for sales of the Company's crude oil to its in-Kingdom and international wholly owned and affiliated refineries.

In addition, the Concession requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG. See Section 13.5.1 (*The Concession*). In connection with this exclusive right, the Government mandates that crude oil and other products sold to third parties in the Kingdom are sold at regulated prices that are typically lower than the prices the Company could obtain if it exported those products. Effective 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of the Company's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020G, the Government will expand the equalisation mechanism to include LPGs and certain other products. See Section 7.3.6 (*Fiscal Regime Changes*).

#### 4.7.1.4 Gas and NGLs

As at 31 December 2018G, the Company had 185.7 trillion standard cubic feet of proved natural gas reserves and 25.4 billion barrels of proved NGL reserves.

In 2018G, the Company produced 8.9 billion standard cubic feet per day of natural gas, 1.0 billion standard cubic feet per day of ethane, 1.1 million barrels per day of NGLs and an additional 0.2 million barrels per day of unblended condensate. As at 31 December 2018G, the total gas processing system, which feeds the MGS, had a capacity of 15.5 billion standard cubic feet per day. The liquids stemming from gas enhance the value of the Company's natural gas production as liquids generally command higher prices than natural gas for the Company.

Pursuant to the Concession, the Company is the exclusive supplier of natural gas in the Kingdom, which is the country with the seventh highest natural gas demand in the world according to the Industry Consultant. Since 1980G, the Company has produced associated gas from oil production to supply the domestic energy market, and in 1984G began producing non-associated gas to address growing domestic demand. Gas in the Kingdom is currently used primarily for power generation and other industrial uses and demand has increased by a CAGR of 3.8% from 2010G to 2017G and is expected to grow at a CAGR of 3.6% from 2017G to 2030G.

Between 2009G and 2018G, the Company completed a number of projects which increased its gas processing capacity and the MGS, an extensive network of pipelines that connects the Company's key gas production and processing sites throughout the Kingdom. Recent examples of projects include the Wasit Gas Plant commissioned in 2016G with a capacity to process 2.5 billion standard cubic feet per day of gas and an adjacent cogeneration power plant. In 2017G, the Company commissioned the Midyan Gas Plant to supply non-associated gas and condensate to the Saudi Electricity Company's power plant in Duba in the Kingdom's Tabuk province, generating opportunities for economic growth in the region. In addition, the Company is constructing the Fadhili Gas Plant, which is expected to add up to 2.0 billion standard cubic feet per day and 0.5 billion standard cubic feet per day of gas processing capacity for the Hasbah and Khursaniyah fields, respectively. The Fadhili Gas Plant is expected to produce natural gas, sulphur and low BTU natural gas to fuel a cogeneration plant for supplying electricity to the national power grid.

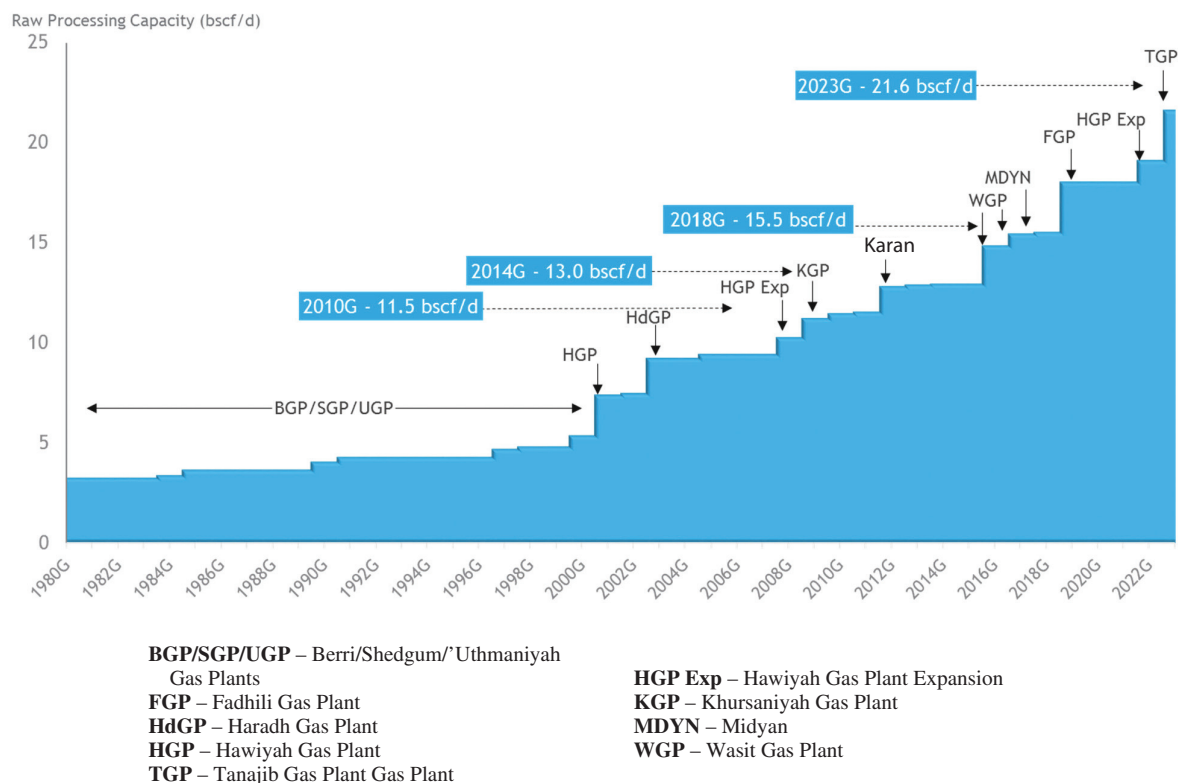
The Company's gas and NGL infrastructure currently consists of the following:

- eight gas processing plants—Berri, Shedgum, 'Uthmaniyah, Hawiyah, Haradh, Khursaniyah, Wasit and Midyan (Fadhili is currently under construction);
- two NGL recovery straddle plants—Hawiyah and Shaybah (the 'Uthmaniyah Deep Ethane Recovery Plant is currently under construction);
- four NGL fractionation plants—Juaymah, Yanbu', Ras Tanura and Wasit; and
- the MGS.

This infrastructure does not include the Shaybah processing capacity, since Shaybah gas capacity is used for NGL recovery but does not contribute natural gas to the MGS. The decision to build the MGS was made in 1975G and the MGS has grown significantly as the Company expanded its associated and non-associated gas production. The MGS collects natural gas produced in the Kingdom and distributes it in an efficient manner for domestic power generation and to other end users.

The following chart illustrates the historical increases in gas processing capacity from 1980G to 2018G and planned increases through 2023G (excluding Shaybah gas processing).

**Exhibit 21: Historical increases in gas processing capacity from 1980G to 2018G and planned increases through 2023G (excluding Shaybah gas processing)**



Source: Company.

### (a) Exploration and Production

The Company's non-associated gas exploration activity has yielded a number of major discoveries, with particular success in the Ghawar area and in deep reservoirs in the Arabian Gulf. Currently, the majority of the Company's exploration activities relate to gas. The Company has enjoyed high success rates in locating new reserves in known hydrocarbon basins adjacent to its existing fields and production infrastructure, allowing it to meet growing domestic demand at low costs, but exploration in new basins with high potential is also being carried out. The Company expects to further expand its proved natural gas reserves through new field discoveries, new reservoir additions in existing fields, and the delineation and reassessment of existing reservoirs and fields.

In addition to its gas exploration activities, the Company developed the Flaring Minimisation Programme, which began nearly four decades ago with the introduction of the MGS. The programme provided for the Company to capture associated gas from crude oil production and process it into products that can be sold in the Kingdom. This enabled natural recovery and utilisation by capturing associated gas in crude oil and then processing and availing it to industries and utilities across the Kingdom. In 2006G, the Company developed and deployed its Corporate Flaring Minimisation Roadmap, which established guidelines to further reduce and minimise its daily flaring and install flare gas recovery systems. The Company remains committed to continue its efforts to further reduce flaring levels.

### (b) Reservoir Management and Production Strategy

The Company's gas management and production strategy focuses on maximising economically recoverable gas using the best available methods and technologies. The Company's primary production strategy is focussed on pressure depletion at moderate rates, with no aquifer support and little water production expected. The gas fields also make extensive use of advanced technologies (for example, horizontal, multilateral, extreme reach wells, multi-stage fracturing and underbalanced coiled tubing drilling), with compression projects being planned to

extend field plateaus. Due to demand patterns, with higher summer utilisation and lower winter production, there is significant opportunity to optimise value. The spare capacity afforded by low winter demand enables the Company to optimise value by balancing production between relatively mature fields with high-value liquids content and newer fields with longer remaining plateau production but lower liquids content. The utilisation pattern also allows efficient maintenance planning for long-term capacity optimisation. Further, optimisation to increase gas plant utilisation and make more gas available during the high demand summer period is planned through the implementation of a gas storage system using a partially depleted gas reservoir in the Ghawar area.

The Company expects its associated gas supply to remain stable due to the quality of its fields and ability to replace reserves with low operational cost and risk. The Company has experienced a gradual decrease in the gas-to-oil ratio of its production portfolio, due to an increase in heavy oil production.

The Company has initiated an unconventional resources programme pursuant to which it is assessing several areas within the Kingdom for their potential to deliver gas and associated liquids to help meet future domestic energy needs. As at 31 December 2018G, trial gas production to replace diesel for electricity generation had been initiated in Northern Arabia, in an area that is not directly connected to the MGS. Trial production to evaluate the production potential of source rock with high total organic content and tight reservoirs has been initiated in the Jafurah and South Ghawar areas. Given the nature of unconventional resources, the Company will need to drill a significant number of wells in each area before it can draw conclusions. The Company plans to further evaluate unconventional resources in other areas.

### (c) **Principal Gas Fields**

The Company's crude oil production provides a base load of associated gas, which is rich in liquids. The Company's non-associated gas fields vary widely in reservoir properties, depths, pressures and compositions. In general, the southern area around the Ghawar field has rich gas at moderate depths and permeability, while the northern offshore fields (Karan, Arabiyah and Hasbah) have leaner gas in deeper reservoirs with high permeability. The Company's gas fields are also generally located in close proximity to its oil fields. The following descriptions summarise the Company's associated and non-associated gas fields.

- *Associated gas.* Ghawar is the Company's largest source of associated gas. Other major associated gas fields include Khurais, Safaniyah, Zuluf and Marjan.
- *Non-associated gas.* The Company's main non-associated gas fields are located in the Eastern region of the Kingdom.
- *Southern Area.* The Company's principal non-associated gas fields in the southern area of the Kingdom's Eastern Province are located in the greater Ghawar area, in the deeper horizons below the main oil-bearing zones, and in the adjacent satellites of Ghazal, Midrikah, Nujayman and Tinat. The main gas-bearing geological formations are the Khuff, Jauff and 'Unayzah.
- *Northern Area.* The contribution of the northern area of the Kingdom's Eastern Province to non-associated gas production capacity has increased significantly since 2006G through the discovery of the Karan, Arabiyah and Hasbah fields. These fields are highly productive and the Company applies its approach to well management in order to achieve sustainable production over time. The fields currently produce to the Khursaniyah and Wasit gas processing plants (with total gas processing capacities of 2.8 billion cubic feet per day and 2.5 billion cubic feet per day, respectively). Below is a description of the Company's three primary northern gas fields:
- *Karan.* Karan was the Company's first non-associated offshore gas field. Discovered in 2006G, Karan began production through existing facilities at Khursaniyah in 2011G. Full production through new dedicated facilities started in 2012G at 1.8 billion standard cubic feet per day.
- *Arabiyah.* The Company discovered the Arabiyah field, which is located to the northeast of Karan and straddles the marine border between the Kingdom and Iran, in 2008G following the success of Karan in the same deep Khuff formation. Arabiyah started production to feed the new Wasit Gas Plant in early 2017G.
- *Hasbah.* The Hasbah field was discovered in 2008G and was the third of the three major discoveries in the Khuff formation. It lies slightly to the northwest of Arabiyah and straddles the marine border between the Kingdom and Iran. Hasbah is designed to contribute both to the new Wasit Gas Plant and to the Fadhili Gas Plant. This new gas plant is under construction and is expected to commence operations by the end of 2019G and become fully operational in 2020G, with a total gas processing capacity of 2.5 billion cubic feet per day.



- *Unconventional Opportunities.* The Company's unconventional resources programme is primarily focussed in Northern Arabia, South Ghawar and Jafurah.

#### (d) **Gas Processing, NGL Recovery and Fractionation Facilities**

The Company's primary natural gas processing and fractionation facilities are located in three geographical regions: Jubail, Ghawar and the Kingdom's western area.

The facilities are strategically located near the Company's fields to reduce transportation and pipeline compression costs, as well as the time required to deliver gas products to market.

At the fractionation centres, gas and NGL streams are split into individual components: ethane (C2), propane (C3), butane (C4) and natural gasoline (C5+). The ethane production is currently marketed domestically. Propane, butane and natural gasoline are marketed both domestically and exported.

#### (e) **Delivery Commitments**

Pursuant to the Concession, the Company is the exclusive supplier of natural gas in the Kingdom. The Company sells natural gas to power generation plants primarily pursuant to long-term contracts and to customers in the Kingdom's industrial sector. The Company also exports a portion of its NGL production. The Company expects to fulfil a portion of these commitments through the development of its proved reserves.

The Company's supply of natural gas to domestic customers is regulated by the GSPR and the prices paid by domestic customers are set by resolutions issued from time to time by the Council of Ministers. See Sections 5.3 (*Law of Gas Supplies and Pricing*) and 5.4 (*Regulated Domestic Pricing of Certain Hydrocarbons*).

#### 4.7.2 **Downstream**

The Company has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation. The downstream segment's other business activities include base oils, lubricants and retail operations.

The Company operates its refining business through its wholly owned operations and affiliated refineries with leading global industry partners, and aims to continue growing its downstream business. This growth is reflected in the significant increase in its net refining capacity from 2.2 million barrels per day as at 31 December 2010G to 3.1 million barrels per day as at 31 December 2018G. The Company's net refining capacity as at 31 December 2018G made it the fourth largest integrated refiner in the world based on a comparison with third party refining capacity data provided by the Industry Consultant. As at 31 December 2018G, the Company had a gross refining capacity of 4.9 million barrels per day. The Company is expecting a series of additions to its refining capacity, including through its purchase of a 17% equity interest in Hyundai Oilbank and the commencement of operations at the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex. The Jazan and PRefChem facilities are expected to be fully operational in the second half of 2020G. By the end of 2020G, the Company expects its net refining capacity to increase to 4.0 million barrels per day and gross refining capacity to increase to 6.8 million barrels per day.

In 2018G, the Company's downstream operations consumed 38% of the Company's crude oil production. The Company specifically designs and configures its refining system to optimise production using the crude oil it produces, which helps improve supply chain cost and operational efficiency in its refining operations and therefore supply of refined products to its downstream customers. The Company's downstream portfolio is highly sophisticated with full conversion refineries operated by Motiva, SATORP, YASREF and S-Oil.

The Company's downstream operations began in 1945G when the Ras Tanura refinery started operations and expanded with the acquisition of an in-Kingdom refining network from Samarec in 1993G. Following these acquisitions, which included joint ventures with Mobil (later ExxonMobil) (SAMREF) and Shell (SASREF), the most significant growth phase of the downstream business started in the mid-2000Gs in the Kingdom and has continued through the present with the development of a number of international investments, mega refineries and chemicals projects. The Company has entered into downstream ventures in and out of the Kingdom with leading international refining and chemical companies, such as Mobil (Luberef) in 1998G, Sumitomo (Petro Rabigh) in 2005G, Total (SATORP) in 2008G, Sinopec (YASREF) in 2010G, Dow (Sadara) in 2011G and Petronas (PRefChem) in 2018G. Each of the Company and the relevant joint venture partner assumes an equity interest and managerial role in the relevant downstream joint venture company, and the relevant refinery or chemicals project is operated by the joint venture company. The Company believes these downstream

investments diversify its revenue by integrating its oil and gas operations to optimise value across the hydrocarbon chain, supporting crude oil and gas demand and, in the case of international refining operations, facilitate the placement of the Company's crude oil in large offtake volumes relative to the Company's equity interest and capital costs.

In recent years, the Company has begun to increase its equity interests and management participation in its affiliates in order to ensure that they are operated efficiently and profitably. For example, in 2015G, the Company increased its 34.2% equity interest in S-Oil to a 61.6% economic interest (63.4% on a non-diluted basis) and gained greater control over the company. The Company also has entered into transactions to fully acquire certain downstream assets formerly held as part of joint ventures. For example, on 1 May 2017G, the Company completed a transaction to separate and transfer the assets, liabilities and businesses of its former Motiva joint venture with Shell and transferred certain assets and liabilities to a wholly owned subsidiary of the Company. This transaction allowed the Company to assume sole ownership of the largest crude oil refinery in the U.S. Gulf Coast with refining scale, access strategic infrastructure and a material scale marketing network and pursue its independent downstream ambitions in key U.S. fuels markets. Moreover, on 31 December 2018G, the Company acquired full ownership in ARLANXEO (an associate in partnership with Lanxess). Additionally, on 18 September 2019G, the Company acquired the 50% share of SASREF from Shell that it did not already own and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company. Furthermore, on 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC, which would significantly expand the Company's chemicals business. Following the closing of the proposed acquisition, the Company's chemicals business will operate in over 50 countries and produce a range of chemicals, including olefins, ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. These transactions in the Company's downstream business are meant to secure outlets for the Company's crude oil and gas and advance the Company's strategy to further diversify operations to capture value from strategic integration.

The Company continues to play an active managerial role in other ventures in its global downstream portfolio. The Company also is exploring new opportunities for downstream investments globally.

The Company has initiatives in place to improve operational and financial performance of its downstream business, such as capacity increases, asset upgrades, improvements in product yield and petrochemical integration. The Company believes it can achieve a number of these improvements with low capital requirements. For example, the Company believes it can increase its net refining capacity in excess of 70,000 barrels per day through planned increases at SATORP and YASREF. These increases can be safely achieved at existing refining assets as key units demonstrate an operational track record that allows the Company to increase throughput. Moreover, the Company's ongoing initiatives are also focussed on optimising petrochemicals integration at existing facilities and develop new integrated facilities. Further projects are under consideration to increase this level of integration and capture additional value across the hydrocarbon chain, with a focus on integration of the Company's refining assets.

#### 4.7.2.1 *Refining*

The Company operates one of the world's largest refining businesses, with gross refining capacity of 4.9 million barrels per day for 2018G. The Company's refining operations allow it to transform its crude oil and natural gas into refined products and chemicals for sale within the Kingdom and internationally. The Company specifically designs and configures its refining system to optimise production using the crude grades the Company produces, which helps improve supply chain cost and operational efficiency in its refining operations and therefore supply of refined products to its downstream markets.

The Company's refining operations are conducted in the Kingdom and internationally through wholly owned and affiliated refineries. NCI is a widely used industry measure of refining complexity. Refineries with higher NCIs are generally more technically advanced, have greater flexibility and are able to extract higher value from the crude oil they process by producing greater yields of high-margin products. The following table sets forth the gross refining capacity and weighted average NCI of the Company's refineries as at 31 December 2018G.

**Table 15: Gross refining capacity and weighted average NCI of the Company’s refineries as at 31 December 2018G**

	Capacity <i>(mbpd)</i>	Weighted average NCI
In-Kingdom wholly owned .....	930	4.9
In-Kingdom affiliated .....	1,905	9.6
International .....	2,029	9.8

Source: Company.

The Company’s strategy is to continue increasing its in-Kingdom refining capability and expand its strategically integrated downstream business in high-growth economies, such as China, India and Southeast Asia, while maintaining its current participation in material demand centres, such as the United States, and countries that rely on importing crude oil, such as Japan and South Korea. Consistent with the Company’s downstream strategy, the Company has invested in two refining and petrochemical joint ventures with Petronas, the Malaysian NOC, collectively known as PRefChem. The PRefChem joint ventures include a 300,000 barrel per day refinery, an integrated steam cracker with capacity to produce 1.3 million tonnes of ethylene with associated propylene, butadiene, benzene, polyolefins and ethylene glycol facilities, all of which are located in Johor, Malaysia, adjacent to Singapore, Asia’s refined products trading hub. The Company expects these facilities to be commissioned in the second half of 2020G and that the Company will provide a significant portion of PRefChem’s crude supply under a long-term supply agreement. The Company believes this presents an expansion opportunity in Southeast Asia and offers new geographies for its crude oil production.

The Company has recently entered into non-binding agreements regarding the expansion of its downstream business in Asia, including entering into a non-binding letter of intent with Reliance Industries Limited on 12 August 2019G to purchase a 20% stake in the oil to chemicals division of Reliance Industries Limited. Other recent investments in the Company’s refining portfolio include Jazan, which is expected to begin operations at the end of 2019G and is expected to be ready for full operations in the second half of 2020G, and a residue upgrading and petrochemicals complex project at S-Oil which was commissioned in 2018G.

The Company seeks to optimise its production of refined products and maximise refinery and petrochemical utilisation and margins. The following table sets forth the Company’s consolidated and equity share of production volume for its principal refined products for each of 2017G and 2018G.

**Table 16: The Company's share of production volume for its principal refined products for each of 2017G and 2018G**

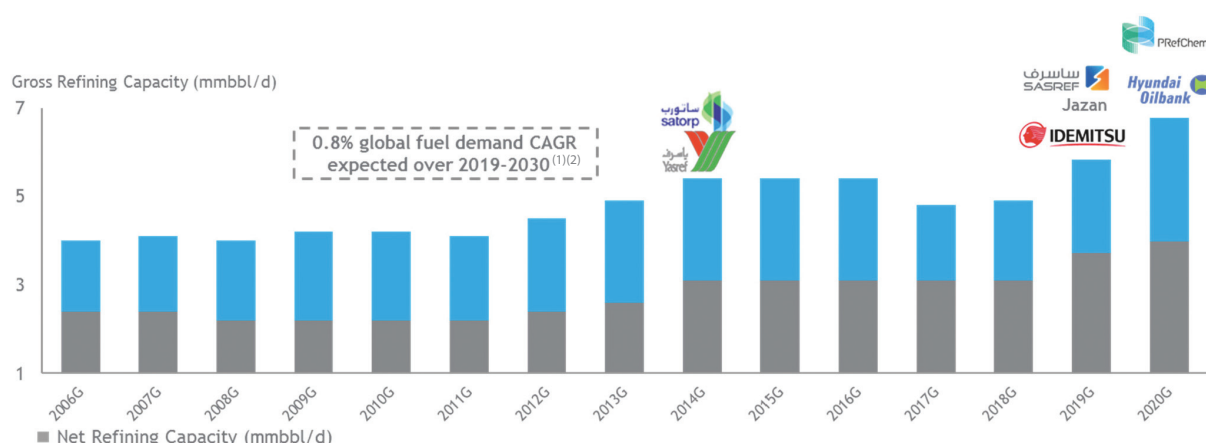
	Year Ended 31 December	
	2017G	2018G
	(mbpd)	
<b>Consolidated basis<sup>(1)</sup>:</b>		
Diesel . . . . .	747	762
Gasoline . . . . .	422	416
Jet fuel and kerosene . . . . .	145	156
Fuel oil . . . . .	345	315
Other <sup>(2)</sup> . . . . .	233	235
<b>Total in-Kingdom refinery production<sup>(3)</sup></b> . . . . .	<b>1,891</b>	<b>1,884</b>
Diesel . . . . .	342	447
Gasoline . . . . .	212	312
Jet fuel and kerosene . . . . .	167	194
Fuel oil . . . . .	109	97
Other <sup>(2)</sup> . . . . .	276	306
<b>Total international refinery production<sup>(4)</sup></b> . . . . .	<b>1,106</b>	<b>1,356</b>
<b>Total production – consolidated basis</b> . . . . .	<b>2,998</b>	<b>3,239</b>
<b>Equity basis<sup>(5)</sup>:</b>		
Total in-Kingdom refinery production . . . . .	1,891	1,884
Total international refinery production . . . . .	1,148	1,193
<b>Total production – equity basis</b> . . . . .	<b>3,039</b>	<b>3,077</b>

Source: Company.

- (1) Represents production from the Company and its affiliated entities on the same basis that such entities are consolidated in the Financial Statements.
- (2) Primarily includes naphtha, LPG and asphalt, in addition to lubricants and chemicals for certain international affiliates.
- (3) On a consolidated basis, the Company recognises its equity share of production from in-Kingdom refineries.
- (4) Includes 100% of S-Oil production for all periods presented and 100% of Motiva production after 1 May 2017G.
- (5) Represents production from the Company and its affiliated entities on the basis of the Company's equity stake in such entities.

The following chart illustrates the Company's refining capacity from 2006G to 2018G and expected expansion to 2020G.

**Exhibit 22: Refining capacity from 2006G to 2018G and expected expansion to 2020G**



Source: Company.

- (1) Source: Industry Consultant.
- (2) Fuel demand includes LPG, naphtha, kerosene, gasoline, gasoil and fuel oil.

The Company's consolidated share of its global refining system produced 3.2 million barrels per day of refined products in 2018G. In general, with respect to the Company's international joint ventures, the joint venture

company handles all or a portion of domestic sales and each joint venture partner offtakes its equity share of refined products that are not sold by the joint venture. The Company takes its full equity share of the refined products produced in the Kingdom and, in the case of Petro Rabigh, 100% of the refinery products, into its wholly owned distribution and trading system.

(a) **Domestic Refining**

The majority of the Company's refining operations are located in the Kingdom. The Company's domestic wholly owned and affiliated refineries receive all their crude oil, NGLs and natural gas supply from the Company's upstream production. As a result, in 2018G, the Company placed 25% of its crude oil production, or 2.6 million barrels per day, to its in-Kingdom refineries. In addition, 0.2 million barrels per day of condensate were placed to the Company's in-Kingdom refineries in 2018G. The Company's equity share of refined products and the refined products it produces through its wholly owned refineries located within the Kingdom are primarily distributed wholesale to domestic fuels retailers and industrial customers through the Company's pipelines, distribution and terminals system. The balance of the Company's share of domestically refined products is exported internationally by its sales and trading arm. For further information regarding the Company's supply and trading, see Section 4.7.2.6 (*Supply and Trading*).

(i) *Domestic Wholly Owned Refining Operations*

Once Jazan becomes operational, the Company will have four wholly owned refineries within the Kingdom, three of which were built specifically to supply transportation and utility fuels for domestic demand. In November 2017G, the Company closed the Jeddah refinery and converted the complex to a distribution hub.

The following table provides data about the Company's domestic wholly owned refineries as at 31 December 2018G.

**Table 17: The Company's domestic wholly owned refineries as at 31 December 2018G**

	<b>Asset Type</b>	<b>Capacity</b> <i>(mbpd)</i>	<b>NCI</b>	<b>Throughput</b> <i>(mbpd)</i>	<b>Utilisation</b> <i>(%)</i>
Ras Tanura .....	Refining	550	4.6	528	96
Yanbu' .....	Refining	250	3.9	251	100
Riyadh .....	Refining	130	7.7	139	107
<b>Total/weighted average</b>		<b>930</b>	<b>4.9</b>	<b>918</b>	<b>99%</b>

Source: Company.

- *Ras Tanura*. The Ras Tanura Refinery is located in the Eastern Province of the Kingdom and was completed in 1941G. Operations began in 1945G with a number of major expansions and upgrades over the subsequent years creating one of the largest refineries in the Middle East. The refinery has a gross refining capacity and a net refining capacity of 550,000 barrels of crude oil and condensate per day.
- *Yanbu'*. The Yanbu' Refinery is located in the Kingdom's western area and was completed in 1983G. It has a gross refining capacity and a net refining capacity of 250,000 barrels of crude oil per day.
- *Riyadh*. The Riyadh Refinery is located in the Kingdom's central area and receives its crude from the East-West pipeline. The refinery has a gross refining capacity and net refining capacity of 130,000 barrels of crude oil per day.
- *Jazan*. The Jazan Refinery and Terminal is an integrated refinery and petrochemical project in the Jazan Province of the Kingdom. Jazan is expected to begin operations at the end of 2019G and be ready for full operations with capacity to process 400,000 barrels of crude oil per day in the second half of 2020G.

(ii) *Domestic Affiliated Refining Operations*

The Company has five domestic affiliated refineries within the Kingdom. These refineries are highly competitive with other world-class facilities based on scale, configurations and product yields. Through its long-term supply agreements with these ventures, the Company has the right to supply all crude processed at these refineries. In 2018G, the Company placed 18% of its crude oil production, or 1.9 million barrels per day, to its domestic affiliated refineries. All five of these in-Kingdom refineries manufacture products both for domestic consumption and export.

The following table provides data about the Company's domestic affiliated refineries as at 31 December 2018G.

**Table 18: The Company's domestic affiliated refineries as at 31 December 2018G**

	Asset Type	Capacity (mbpd)	NCI	Throughput (mbpd)	Economic Interest (%)	Utilisation (%)	Partner
SATORP .....	Refining and petrochemical	400	11.9	418	62.5	105	Total
YASREF .....	Refining and petrochemical	400	10.1	421	62.5	105	Sinopec
SAMREF .....	Refining	400	7.4	328	50.0	82	ExxonMobil
SASREF <sup>(1)</sup> .....	Refining	305	7.7	307	50.0	101	Shell
Petro Rabigh .....	Refining and petrochemical	400	9.7	387	37.5	97	Sumitomo
<b>Total/weighted average</b> .....		<b>1,905</b>	<b>9.6</b>	<b>1,861</b>		<b>98%</b>	

Source: Company.

(1) On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company.

- **SATORP.** SATORP is a joint operation between the Company and Total that owns and operates the Jubail refining and manufacturing complex located on the east coast of the Kingdom. The refinery has a gross refining capacity of 400,000 barrels of crude oil per day and a net refining capacity of 250,000 barrels of crude oil per day. SATORP is planned to increase its gross refining capacity from 400,000 barrels of crude oil per day to 440,000 barrels of crude oil per day by 2020G.
- **YASREF.** YASREF is a joint operation between the Company and Sinopec that owns and operates a full conversion refinery located in the Yanbu' manufacturing complex on the west coast of the Kingdom, Yanbu' Industrial City. The Yanbu' facilities include a complex refinery with a gross refining capacity of 400,000 barrels of crude oil per day and a net refining capacity of 250,000 barrels of crude oil per day. YASREF is planned to increase its gross refining capacity from 400,000 barrels of crude oil per day to 430,000 barrels of crude oil per day by 2020G.
- **SAMREF.** SAMREF is a joint operation between the Company and ExxonMobil that owns and operates a refinery located in the Yanbu' manufacturing complex on the west coast of the Kingdom. It has a gross refining capacity of 400,000 barrels of crude oil per day and a net refining capacity of 200,000 barrels of crude oil per day.
- **SASREF.** SASREF was a joint operation between the Company and Shell that owns and operates a refinery located in the Jubail manufacturing complex on the east coast of the Kingdom. On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company. The refinery has a gross refining capacity of 305,000 barrels of crude oil per day.
- **Petro Rabigh.** Petro Rabigh owns and operates a highly integrated refining and petrochemical facility located in Rabigh on the west coast of the Kingdom. The Petro Rabigh facility has a gross refining capacity of 400,000 barrels of crude oil per day and a net refining capacity of 150,000 barrels of crude oil per day. Petro Rabigh is a publicly traded company listed on Tadawul and is 37.5% owned by each of the Company and Sumitomo.

#### (b) International Refining and Marketing

The Company's international refining footprint is focussed in key growth geographies, particularly in Asia, that offer an opportunity for the Company to place its crude oil and reach new customers in growing economies that are net importers of crude oil. In 2018G, the Company's net refining capacity for its operational international wholly owned and affiliated refineries was 1.2 million barrels per day. That year, the Company supplied 1.3 million barrels per day of crude oil to its international wholly owned and affiliated refineries, which exceeded its equity ownership share by 140,000 barrels per day (12% higher than its equity ownership). Product sales by the Company's international ventures are generally facilitated by a distribution system owned by the respective joint venture through over 14,500 branded company-owned company-operated or dealer-owned dealer-operated retail networks.

The following table provides data about the Company's international refining and marketing operations as at 31 December 2018G.

**Table 19: The Company's international refining and marketing operations as at 31 December 2018G**

	Asset type	Location	Gross Refining Capacity (mbpd)	NCI	Throughput (mbpd)	Economic Interest (%)	Utilisation (%)	Partners	Retail sites
Motiva (Port Arthur Refinery)	Refining and petrochemical	U.S.	635	10.0	654	100.0	103	—	>5,000
S-Oil	Refining and petrochemical	South Korea	669	9.8	657	61.6 <sup>(1)</sup>	98	—	>2,100
FREP	Refining and petrochemical	China	280	6.8	176	25.0	63	Sinopec, ExxonMobil	N/A
SSPC	Marketing	China	—	—	—	22.5	—	Sinopec, ExxonMobil	>1,000
Showa Shell <sup>(2)</sup>	Refining and petrochemical	Japan	445	10.2	429	15.1	96	—	3,400
<b>Total/weighted average</b>			<b>2,029</b>	<b>9.8</b>	<b>1,916</b>		<b>94</b>		

Source: Company.

(1) Economic interest in S-Oil on a fully diluted basis. On a non-diluted basis, the Company's shareholding in S-Oil is 63.4%.

(2) On 1 April 2019G, Idemitsu Kosan consummated a merger with Showa Shell Sekiyu, resulting in the Company having a 7.7% equity interest in Idemitsu Kosan.

- **Motiva.** Motiva's Port Arthur refinery, located in Port Arthur, Texas, is the largest single site crude oil refinery in North America, with a gross refining capacity and a net refining capacity of 635,000 barrels of crude oil per day, 24 distribution terminals with 8.2 mmbbl storage capacity and access to strategic pipeline systems in the eastern and southeastern regions of the United States. Motiva was formed in 1998G when Shell merged its eastern and southeastern U.S. operations with Star Enterprise, a joint venture between Texaco and Saudi Refining. From 2002G until May 2017G, Motiva was a joint venture between the Company and affiliates of Shell. On 1 May 2017G, the Company completed a transaction to separate and transfer the assets, liabilities and businesses of its former Motiva joint venture with Shell pursuant to which the Company received full ownership of the Motiva refinery. The Company also obtained rights to a ten year licence to sell fuels under the Shell brand in more than 5,000 Shell-branded and 76-branded retail service stations and unbranded wholesalers located in Texas and six other states in the Southeast and mid-Atlantic regions of the United States. The Company's full ownership of Motiva is consistent with its strategy to increase ownership and control of its international ventures. Motiva is the only Material Subsidiary located outside the Kingdom, based on the asset test described in Section 13.3.1 (*Material Subsidiaries*). As at 31 December 2018G, Motiva's total assets were SAR 51.9 billion, while the Company's total assets were SAR 1,346 billion as at that date.
- **S-Oil.** S-Oil's principal business activity is manufacturing and selling refined, lubricant and petrochemical products and importing and exporting crude oil products. S-Oil's Onsan Refinery in Ulsan, South Korea has a gross capacity of 669,000 barrels of crude oil per day. S-Oil has a network of more than 2,100 retail service stations to serve end customers. S-Oil is a publicly traded corporation listed on the Korean stock exchange.
- **FREP.** FREP is an international joint venture between the Company, ExxonMobil and Fujian Petrochemical Company Limited (itself a joint venture between Sinopec and the Fujian provincial government). FREP is a large-scale refining and petrochemical enterprise located in Quanzhou, China. It has gross refining capacity of 280,000 barrels per day and a net refining capacity of 70,000 barrels per day. The refinery processes a mix of Arabian crude oils to produce high-quality gasoline, diesel and jet fuel. FREP also owns and operates petrochemical facilities, including an 830,000 tonnes per year paraxylene complex, a 1.1 million tonnes per year ethylene steam cracker with associated polyethylene, polypropylene and ethylene glycol plants as well as a 300,000 deadweight-tonne crude oil terminal.
- **SSPC.** SSPC is the fuels distribution and marketing venture between the Company, ExxonMobil and Sinopec. SSPC sells wholesale and retail motor gasoline and diesel to customers in Fujian Province through more than 1,000 service stations and 17 distribution terminals, seven of which are owned by the joint venture. SSPC has exclusive rights to market FREP gasoline and diesel products in Fujian Province.

- *Idemitsu Kosan*. Idemitsu Kosan is a result of a merger between Idemitsu and Showa Shell Sekiyu and it owns and operates more than 6,400 retail service stations in Japan and has equity stakes in six refineries in Japan that produce refined products, propylene, benzene and mixed xylene. Idemitsu Kosan has a net refining capacity of 73,000 barrels per day and a gross refining capacity of 945,000 barrels per day. Idemitsu Kosan's sales in Japan are primarily gasoline, kerosene and automotive lubricants. Its international sales include aviation fuel as well as marine bunkers and lubricants.
- *PRefChem*. PRefChem is an integrated refinery and petrochemicals development project involving multiple parties in Johor, Malaysia, which is adjacent to the regional trading hub of Singapore. The Company and Petronas are involved in the joint development of PRefChem. PRefChem is expected to be supported by third party utilities and infrastructure facilities, including a deep-water oil terminal, an LNG regasification plant, crude and LNG storage and a cogeneration power plant and is expected to supply feedstock to third party downstream petrochemical plants. PRefChem is expected to have the capacity to process 300,000 barrels of crude oil per day and produce Euro 5 gasoline and diesel and other refined products as well as feedstock for the production of three million tonnes per year of petrochemical products. The project will provide the Company with long-term placement of 150,000 barrels per day, with an option for an additional 60,000 barrels of crude oil per day and the offtake rights for 50% of production, including gasoline, diesel, kerosene, olefins, polymers and glycol. The project is expected to be operational in the second half of 2020G.
- *Hyundai Oilbank*. Hyundai Oilbank is a private oil refining company in South Korea, established in 1964G. The Daesan Complex, where Hyundai Oilbank's major facilities are located, is a fully integrated refining plant with a processing capacity of 650,000 barrels of crude oil per day. The business portfolio of Hyundai Oilbank and its subsidiaries includes oil refining, base oil, petrochemicals and a network of service stations. On 15 April 2019G, the Company entered into a purchase agreement to acquire a 17% equity interest in Hyundai Oilbank from Hyundai Heavy Industries Holdings, for an estimated SAR 4.7 billion with an option to acquire an additional 2.9% equity interest. The transaction, which is subject to customary closing conditions, is expected to close by the first half of 2020G.

#### 4.7.2.2 Base Oil Products

Three of the Company's downstream facilities, Luberef, Motiva and S-Oil, are major producers of Group I, Group II and Group III base oils. In 2018G, the Company sold 4.1 million tonnes of base oils. The Company has an interchangeable Group II global slate incorporating Luberef, Motiva and S-Oil base oil production through two technical programmes covering API and European Automobile Manufacturers Association (ACEA) certification requirements. This allows customers to source base oils meeting their existing specifications for finished lubricants from any one of the Company's base oil facilities.

The following sets forth a description of the Company's base oil operations.

- *Luberef*. Luberef is an affiliate whose shareholders are the Company and Jadwa Industrial Investment Company that supplies base oils to major lubricant blenders operating around the world. Luberef produces high-quality Group I and Group II base oils at an optimised grade mix from its two production facilities that are strategically located in Jeddah and Yanbu'. In January 2018G, Luberef commissioned new Group II base oils facilities which increased Luberef's total base oil production capacity from 0.6 million tonnes per year to 1.2 million tonnes per year.
- *Motiva*. Motiva supplies Group II and speciality base oils in the Americas and Europe to major IOCs, such as BP and Shell, and domestic blenders, such as Citgo. Motiva's base oil production capacity of 2.0 million tonnes per year produces branded base oils used to manufacture products conforming to API Engine Oil Licensing System, European Automobile Manufacturers' Association, Original Equipment Manufacturers and other recognised industry standards for automotive and industrial lubricants.
- *S-Oil*. S-Oil was founded in 1976G in South Korea. S-Oil's base oil production capacity is 2.2 million tonnes per year and it manufactures high-quality base oils in a full range of Group I, Group II and Group III base oil products used by customers around the world.

In 2017G, the Company created, developed and registered three new brand names for its base oils: aramcoDURA for Group I base oil, aramcoPRIMA for Group II base oil, and aramcoULTRA for Group III base oil. To further integrate its downstream business, the Company is working towards consolidating the marketing and sales of these branded base oils by Luberef, Motiva and S-Oil to offer a unified slate of interchangeable products to its base oils customers.



#### 4.7.2.3 Retail Operations

Through the Company’s ownership in Motiva, the Company operates more than 5,000 service stations located in the United States. In addition, through its other subsidiaries, affiliates and investments, the Company has an interest in and supplies refined products to more than 1,000 service stations in China, 2,100 service stations in South Korea and 6,400 service stations in Japan.

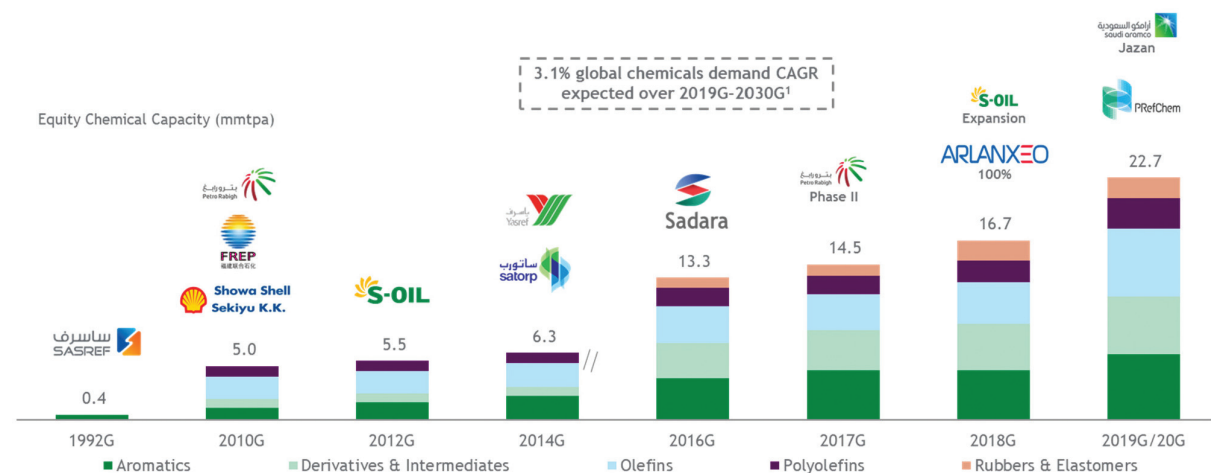
On 14 February 2019G, the Company grew its service stations business and increased access to in-Kingdom retail customers by entering into a 50:50 joint venture with Total to operate service stations in the Kingdom. The Company and Total also entered into an agreement to acquire a network of 270 service stations and a fuel tanker fleet in the Kingdom under the “Sahel” brand name. The transaction closed on 17 June 2019G. The Company and Total intend to rebrand these newly acquired service stations in the future.

#### 4.7.2.4 Chemicals

The Company’s chemicals business represents an extension of the hydrocarbon value chain and strategically complements the Company’s refining operations. The Company’s growing operations in chemicals include participation in high-growth chemical markets with demand from industries such as packaging, automotive and appliances. As at 31 December 2018G, the Company had a net and gross chemical production capacity of 16.7 million and 33.2 million tonnes per year, respectively. Following the closing of the proposed acquisition of the PIF’s 70% equity interest in SABIC, the Company’s chemicals business will operate in over 50 countries and produce a range of chemicals, including olefins ethylene, ethylene glycol, ethylene oxide, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products.

The following chart illustrates growth of net production capacity in the Company’s chemicals business from 1992G to 2018G and expected expansion to 2020G (excluding SABIC).

**Exhibit 23: Growth of net production capacity in the Company’s chemicals business from 1992G to 2018G and expected expansion to 2020G (excluding SABIC)**



Source: Company.

(1) Demand for ethylene, paraxylene, propylene and benzene.

The Company is the primary supplier of feedstock required by its chemicals facilities in the Kingdom. All the Company’s affiliated chemicals facilities in the Kingdom and most of its affiliated chemicals facilities outside the Kingdom include plants integrated with refineries, which provide additional production flexibility and opportunities for cost competitiveness.

The Company intends to further integrate its chemicals business with its refining operations, increase its chemicals production capacity through debottlenecking or new assets and increase its presence in developing and new geographies to support the Company’s long-term growth strategy. Integration with refining allows the Company to capture additional margins, balance refinery system production and reduce margin volatility. Further integration also supports the production of more complex, higher-value chemicals and speciality products. Together with this capacity and portfolio growth, the Company seeks to further utilise its marketing capabilities by securing product offtake from its affiliates, which would allow the Company to capture margins at each stage

of the hydrocarbon value chain, from upstream crude production to downstream polymer product sales and distribution.

The core of the Company's petrochemical manufacturing is conducted through its affiliates located in the Kingdom, China, Japan, South Korea and the Netherlands with leading industry players, including Dow (Sadara), Sumitomo (Petro Rabigh), Total (SATORP) and Sinopec (YASREF). Through these affiliates, the Company produces commodity and differentiated petrochemicals. The Company has strategic positions domestically and internationally, and benefits from technical and operational knowledge transfer.

In addition to technologies developed in-house, the Company's integrated chemicals business benefits from its access to advanced technologies from leading partners and acquisitions, access to customers, and pipeline of future growth projects.

(a) **Chemicals Facilities**

The following table and paragraphs provide data and descriptions concerning the Company's standalone chemicals facilities as at 31 December 2018G. The Company uses the term standalone chemicals facilities to refer to chemicals production facilities in which refined products are not also produced.

**Table 20: The Company's standalone chemicals facilities as at 31 December 2018G**

	Equity Interest	Location	Nature of Activities	Chemicals Production
Sadara	65%	Kingdom	Petrochemical	Olefins, polyethylene, ethylene oxide, butyl glycol, amines, propylene oxide, propylene glycol, polyols, isocyanates
ARLANXEO	100%	Netherlands	Petrochemical	Synthetic rubber and elastomers

Source: Company.

- **Sadara.** Sadara is a joint venture between the Company and Dow that was established in October 2011G. Sadara is the world's largest integrated chemicals complex built in a single phase. With its feedstock of 85 million standard cubic feet per day of ethane and 53,000 barrels per day of naphtha, it has the capacity to produce more than three million tonnes per year of high value added chemical products and performance plastics. Sadara is also the world's largest fully integrated isocyanates site. Sadara has the right to market all of the products for sale within the Kingdom, as well as the wider Middle East region, and Dow markets any remaining volumes outside the Middle East. Sadara's product end markets include the pharmaceutical, automotive and consumer goods industries.
- **ARLANXEO.** ARLANXEO develops, produces, markets, sells and distributes performance synthetic rubbers and elastomers used by global tyre and auto parts manufacturers and the construction and life science industries. From April 2016G to December 2018G, ARLANXEO was an associate of the Company in partnership with Lanxess, a German speciality chemicals company. On 31 December 2018G, the Company completed a transaction to purchase Lanxess' ownership in ARLANXEO.

In addition to its standalone chemicals facilities, the Company's integrated refining and chemicals business includes the following operations.

**Table 21: Integrated refining and chemicals operations as at 31 December 2018G**

	Equity Interest (%)	Location	Chemicals Production
<b>Domestic Operations</b>			
Petro Rabigh .....	37.5	Kingdom	Ethylene, Propylene, Polyethylene, Polypropylene, Propylene Oxide, Paraxylene, Benzene, Monoethylene glycol, Phenol/acetone, Poly-methyl-methacrylate, Nylon
SATORP .....	62.5	Kingdom	Benzene, Paraxylene, Propylene
SASREF <sup>(1)</sup> .....	50.0	Kingdom	Benzene
YASREF .....	62.5	Kingdom	Benzene
<b>International Operations</b>			
S-Oil .....	61.6 <sup>(2)</sup>	South Korea	Paraxylene, Benzene, Toluene, Xylene, Propylene, Polypropylene, Propylene oxide
PRefChem <sup>(3)</sup> .....	50.0	Malaysia	Propylene, Ethylene, Benzene, MTBE, Butadiene, Polyethylene, Polypropylene, Ethylene glycol
FREP .....	25.0	China	Olefins, Butadiene, Polyethylene, Polypropylene, Glycols, Benzene, Paraxylene, Mixed C4s

Source: Company.

(1) On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company.

(2) Economic interest in S-Oil on a fully diluted basis. On a non-diluted basis, the Company's shareholding in S-Oil is 63.4%.

(3) PRefChem is expected to commence operations in the second half of 2020G.

The Company's refinery assets are located in close proximity to major industrial and manufacturing hubs and, given their locations, have potential for asset upgrades. Their locations also present significant opportunities to develop petrochemical complexes and associated value parks adjacent to the refining sites, similar to the PlasChem Park adjacent to the Sadara facilities and the PlusTech Park adjacent to the Petro Rabigh facilities. The Petro Rabigh facility includes a 1.58 million tonne per year ethylene cracker, a 0.92 million tonne per year propylene fluid catalytic cracking unit and a 1.34 million tonne per year paraxylene complex, with associated polyethylene, polypropylene, phenol/acetone, ethylene glycol, propylene oxide and speciality polymer plants.

#### (b) Commodity Petrochemicals (Olefins and Aromatics)

The Company produces commodity petrochemicals including ethylene, propylene, paraxylene and benzene, which are either sold to third party customers or used actively to produce downstream derivatives such as polymers or chemicals intermediates. Ethylene is the Company's primary product and is the most widely-used chemical in the petrochemical industry.

#### (c) Differentiated Petrochemicals (Polyolefin, Elastomers and Polyurethanes)

*Polyolefin.* The Company's principal polyolefins are polyethylene and polypropylene. Polyolefins are primarily used in the manufacturing of packaging, automobiles, construction materials and a variety of consumer goods.

*Elastomers.* Synthetic rubber and elastomers are widely used in the manufacture of tyres, automotive parts, housewares, shoes, toys and other industries. ARLANXEO is the leading global supplier of such products.

*Polyurethanes.* Propylene oxide, polyols and isocyanates are the essential building blocks for the polyurethane industry, with end uses in automotives, furniture, construction, appliances, coatings and adhesives.

The following table sets forth the Company's gross production capacity and net production capacity for each type of its commodity petrochemicals, principal polyolefins, synthetic rubber and elastomers and other chemicals as at 31 December 2018G.

**Table 22: The Company's gross production capacity and net production capacity for each type of its commodity petrochemicals, principal polyolefins, synthetic rubber and elastomers and other chemicals as at 31 December 2018G**

	Gross Production Capacity	Net Production Capacity
	<i>(in thousand tonnes per annum)</i>	
<b>Commodity Petrochemicals</b>		
Ethylene .....	4,299	1,912
Propylene .....	3,957	1,970
Butadiene .....	168	42
Paraxylene .....	4,700	2,275
Benzene .....	2,376	1,122
Other aromatics .....	2,533	1,219
<b>Principal Polyolefins</b>		
Polyethylene .....	2,985	1,309
Polypropylene .....	1,773	681
<b>Synthetic rubber and elastomers</b>		
Synthetic rubber and elastomers .....	2,039	1,915
<b>Other Chemicals (including polyurethanes)</b>		
Intermediates .....	1,491	765
Derivatives .....	6,882	3,477

Source: Company.

The following table sets forth SABIC's net production capacity for certain petrochemical products as at 31 December 2018G.

**Table 23: SABIC's net production capacity for certain petrochemical products as at 31 December 2018G**

	Net Production Capacity
	<i>(in thousand tonnes per annum)</i>
Ethylene .....	11,392
Polyethylene .....	5,910
Monoethylene glycol .....	3,812
Polypropylene .....	2,804

Source: Industry Consultant.

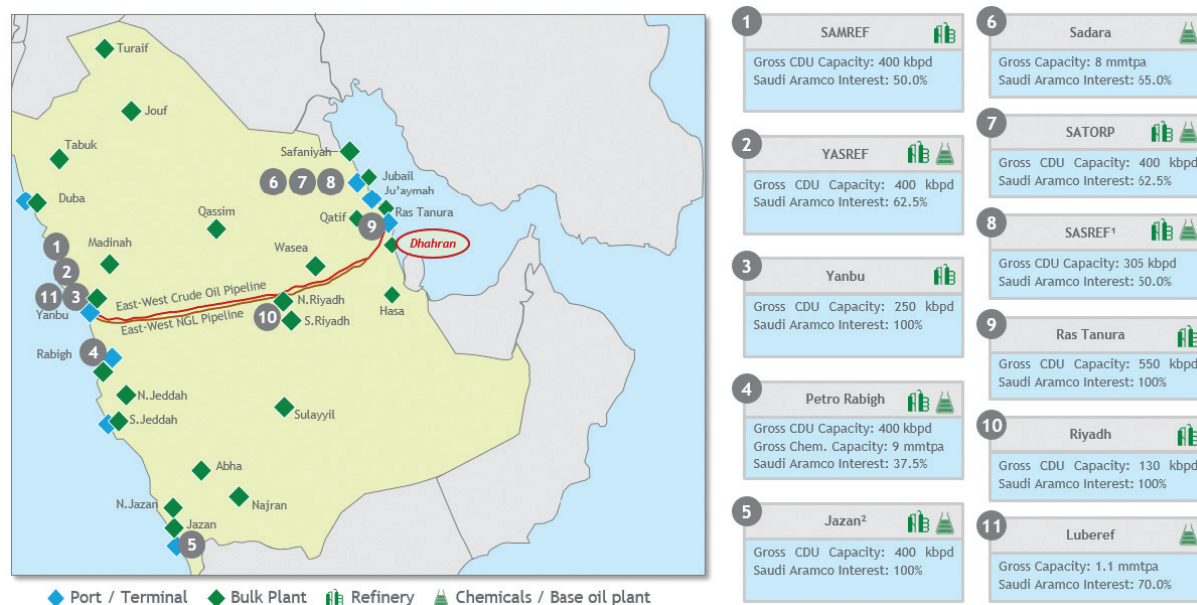
#### 4.7.2.5 Pipelines, Distribution and Terminals

The Company supplies oil products to customers throughout the Kingdom, which provides it with reliable demand and allows for high utilisation of its domestic refining system. In order to meet this demand and help ensure high levels of supply reliability, the Company has made significant investments in the Company's Oil Supply Planning and Scheduling Department ("OSPAS"). OSPAS employs a global distribution system that utilises sophisticated control and monitoring hardware and highly skilled personnel to ensure highly reliable operations that maximise the value of the crude oil and other products produced and sold by the Company. OSPAS gains unique domestic market insights from a wide variety of sources, including the Company's customers, product supply and price data and trading and marketing networks. OSPAS then conveys these market insights to the upstream and downstream businesses to optimise operations. In addition, the Company's Kingdom-wide distribution network includes pipelines, bulk plants, air refuelling sites and terminals that deliver crude oil, NGL, natural gas and refined products. This network provides control and cost optimisation of the entire supply chain from well-head to the end customer.

In addition, the Company is a partner in a joint venture with a 15% equity ownership interest, The Arab Petroleum Pipeline Company (Sumed Company), which operates the Sumed pipeline, an oil pipeline that runs from the Red Sea to the Mediterranean Sea through Egypt and provides an alternative to the Suez Canal.

The following map illustrates the Company's key domestic downstream infrastructure as at 31 December 2018G.

**Exhibit 24: The Company's key domestic downstream infrastructure as at 31 December 2018G**



Source: Company.

- (1) On 18 September 2019G, the Company acquired Shell's 50% interest in SASREF and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company.
- (2) Jazan is expected to begin operations at the end of 2019G and be fully operational in the second half of 2020G.

#### 4.7.2.6 Supply and Trading

In 2018G, the Company traded an average of 4.0 million barrels per day of refined petroleum products, 1.6 million tonnes per year of liquid chemical products and 715,000 tonnes per year of polymers. The Company trades internationally and delivers the Company's refined products to customers using spot chartered and time chartered vessels.

With the recent increase in scale of the Company's downstream operations, the Company is well positioned to use its production and distribution network to optimise its supply and trading capabilities. By controlling the production, refining and distribution processes and integrating them with the Company's trading business, the Company seeks to ensure that customers receive reliable service and consistent products. In addition, there is the potential to optimise product flows on a domestic and international basis across regional and global supply chains to maximise value.

#### 4.7.2.7 Power Systems

As at 31 December 2018G, the Company's power operations comprised 16 captive power plants and associated transmission and distribution assets located in the Northern, Central, Western and Southern areas of the Kingdom. These assets are primarily designed to provide electricity and steam to the Company's upstream oil and gas production facilities, gas processing plants and wholly owned downstream refineries in a safe, reliable, efficient and profitable manner. Certain of these power assets are wholly owned by the Company and some are owned by joint ventures in which the Company has an ownership interest. The Company also enters into offtake arrangements with independent power producers. In addition, the Company currently owns a 6.9% stake in the Saudi Electricity Company, the Kingdom's national electricity utility company, and a 24.8% stake in Marafiq, a domestic utility company that serves the industrial areas of Jubail and Yanbu'.

As at 31 December 2018G, the Company had 6.54 gigawatts of power generation capacity as further detailed in the following table.

**Table 24: Summary of the Company's power generation capacity as at 31 December 2018G**

Power Supply Model	Total Capacity	Ownership Interest	Offtake Entitlement / Contractual Obligation
Wholly owned by the Company	4,014 MW	100%	N/A
Joint venture	885 MW	50% <sup>(1)</sup>	885 MW
Owned by third party power producers	1,643 MW	0% <sup>(2)</sup>	1,643 MW

Source: Company.

(1) These power plants will be transferred to the Company in 2037G pursuant to an agreement among the joint venture partners for no further consideration.

(2) These power plants will be transferred to the Company in 2026G pursuant to an agreement among the joint venture partners for no further consideration.

In 2018G, the Company generated 4,756 megawatts of power, of which 2,470 megawatts of wheeled power was transferred through the national grid and 1,267 megawatts of spill power was transferred to the national grid. The Company has made recent investments through Power Cogeneration Plant Company (PCPC), a joint venture arrangement that brought online a total of 885 megawatts of capacity from generation facilities at Abqaiq, Hawiyah, and Ras Tanura. The Company believes that cogeneration facilities benefit both its operations and the Kingdom because cogeneration facilities supply cost effective power and steam to the Company's operations, with excess power transferred to the national grid.

The Company expects its power generation capacity to grow to 12.0 gigawatts by 2020G. This capacity is inclusive of affiliated and third party generation assets where the Company has a long-term offtake agreement, an ownership interest, or both. The Company anticipates that its power business will continue to pursue other growth opportunities.

#### 4.8 Geographic Location and Operations

The Company's head office is located in the city of Dhahran in the Kingdom. The Company operates throughout the Kingdom and various locations overseas, including through various subsidiaries. See Section 13.3 (*Subsidiaries*).

#### 4.9 Agreements with Key Suppliers

The Company purchases materials and services from local and international suppliers. There is no single supplier that constituted 5% or more of the Company's total purchases in any of the years ended 31 December 2016G, 2017G and 2018G.

#### 4.10 Agreements with Key Customers

Other than one customer in 2016G which accounted for approximately 6% of the Company's total revenue and other income related to sales, there is no single customer that constituted 5% or more of the Company's total revenue and other income related to sales in the years ended 31 December 2016G, 2017G and 2018G.

#### 4.11 Technology, Research and Development

The Company assesses, develops and incorporates new technology in a manner tailored to the Company's operations to ensure the long-term sustainability of its business, enhance its operational efficiency, increase profitability and reduce the environmental impact of its operations. The scale of the Company's hydrocarbon reserves and operational capabilities enable it to realise significant benefits and value from technology development and deployment that would otherwise provide only incremental benefits.

The Company focusses its technology initiatives in three areas: upstream, downstream and sustainability, and recognises the importance of embedding technology in its strategy and business culture. Upstream technology development is directed primarily to improving methods for discovering new hydrocarbon reserves, improving oil recoveries, increasing productivity and reducing lifting costs. Downstream technology development is dedicated primarily to maximising value across the hydrocarbon chain, finding new and improved methods of producing products and diversifying revenue streams. Sustainability technology development is aimed at addressing global energy demand challenges, growing non-fuel applications for crude oil, sustaining low carbon intensity crude oil, advancing sustainable transport and driving high-impact low carbon intensity solutions in response to climate change concerns.

The Company manages a global network of research and technology centres aimed at delivering innovative breakthroughs to achieve its recovery, discovery, diversification and sustainability objectives. Key examples of such technologies under development include the following:

- *TeraPOWERS* is the Company's proprietary cornerstone modelling technology that is an evolutionary step from giga-cell to terra-cell reservoir simulation. TeraPOWERS uses over one trillion cells to simulate parallel basin and reservoir fluid movement with detail beyond that of other simulator technologies. This technology enables the Company to model the physics of its reservoirs to prioritize prospects, reduce exploration risks and costs and sustainably manage its reservoirs.
- *GeoDRIVE* is an integrated seismic imaging platform that enables ultra-high resolution subsurface mapping and characterisation for geophysical applications. This platform enables the Company to efficiently analyse large amounts of seismic data with state-of-the-art imaging algorithms.
- *Smart Flooding* is a technology designed specifically to increase oil recovery in the Company's carbonate reservoirs by optimising the composition and properties of injected water. The Company is able to deploy this technology through existing infrastructure.
- *Thermal Crude to Chemicals* involves pre-treating crude oil to enable it to be directly introduced into a steam cracker with the goal of increasing chemical product yields from oil to upwards of 70%, while also reducing capital costs.
- *Catalytic Crude to Chemicals* involves the direct cracking of crude oil in a high severity catalytic cracking reactor after first flashing the crude oil into low and high boiling streams. The aim of this technology is to increase chemical product yields from oil to upwards of 60% at lower capital costs.
- *Advanced Transport Technologies* involve in-house research and collaboration with engine technology developers and major automakers to improve internal combustion engine efficiency and reduce greenhouse gas and tailpipe emissions through new engine designs and fuel formulations.
- *Carbon Capture, Utilisation and Storage* includes the development of innovative technologies to capture and store carbon dioxide or utilise it in novel materials.

The Company also invests in start-up companies with technologies the Company believes are strategic to its operations. These investments are primarily made in technology supporting the upstream and downstream oil and gas, petrochemical, water and renewable energy sectors.

As at 30 September 2019G, no individual intellectual property asset or application is considered material to the Company, nor does the business of the Company depend on any such intellectual property asset.

#### 4.12 IT and Cybersecurity

The Company relies on the security of information technology and operational technology systems. It has programmes, controls and processes in place designed to protect Company data and systems, to ensure business continuity and operational recovery and to repel intrusion attempts. To respond to an ever-changing cyber threat landscape, the Company has instituted a cybersecurity governance management model for its operations in the Kingdom, led by a Chief Information Security Officer, whose office establishes and maintains cybersecurity policies, directs the cybersecurity programmes and mandates relevant processes, capabilities and technologies. The Company addresses cybersecurity at senior levels, including Board consideration and oversight of the Company's cybersecurity posture and assessment of risks.

One of the Company's main technology strengths is the communication and computing infrastructure it has built in the Kingdom to provide connectivity and computing solutions to its domestic operations infrastructure, which the Company continuously monitors for security events from multiple locations. This infrastructure reaches remote areas and connects the Company's upstream and downstream hydrocarbon facilities, including cross-country pipelines. The Company's infrastructure also includes satellite services that extend connectivity to both offshore and onshore drilling operations and marine services. The Company's infrastructure additionally includes a high availability (Tier-4) Corporate Data Centre, and a remote Disaster Recovery Site to further promote resilience and recovery.

Despite the presence of cybersecurity programmes, controls and processes, attempts to gain unauthorised access to Company networks have been successful in the past, and the Company's operations remain potentially vulnerable to additional known or unknown threats. For further information on cybersecurity risks, see Section 2.1.17 (*Risks related to IT systems*).

## 4.13 Health, Safety and Environment

### 4.13.1 Health and safety

An enterprise-wide, organisationally-driven focus on health and safety supports the Company's goal of protecting its workforce, preventing property losses and avoiding business interruptions, while adapting to market and operating conditions. This involves establishing and maintaining Company standards that utilise a continuous improvement approach commonly used throughout the industry. Additionally, the Company's robust and exacting standards reflect low risk tolerance with rigorously applied operational safety procedures. This is complemented by procedures for crisis management and business continuity designed to provide operational resilience and the ability to quickly respond to internal or external incidents to restore operations safely and efficiently in an orderly manner. The Board's Risk and HSE Committee provides strategic direction and governance on health and safety matters.

The Company's Health, Safety, Security and Environmental Committee ("**HSSE Committee**"), which is led by the CEO and includes other selected members of corporate management, establishes the Company's safety policy and standards covering key issues, including emergency preparedness, incident reporting and investigation, competency and training, community awareness, off-job safety, risk management and asset integrity. The HSSE Committee actively tracks and monitors the safety performance across the organisation to extend accountability and improve safety performance.

The Company has various occupational and environmental health programmes in place to protect its workforce and various communities from hazards that may arise from its operations or activities, including the Occupational Health Hazard Assessment, Hazard Materials Communication, Comprehensive Environmental Health Assessment and Contractor Camp Environmental Health Inspection programmes.

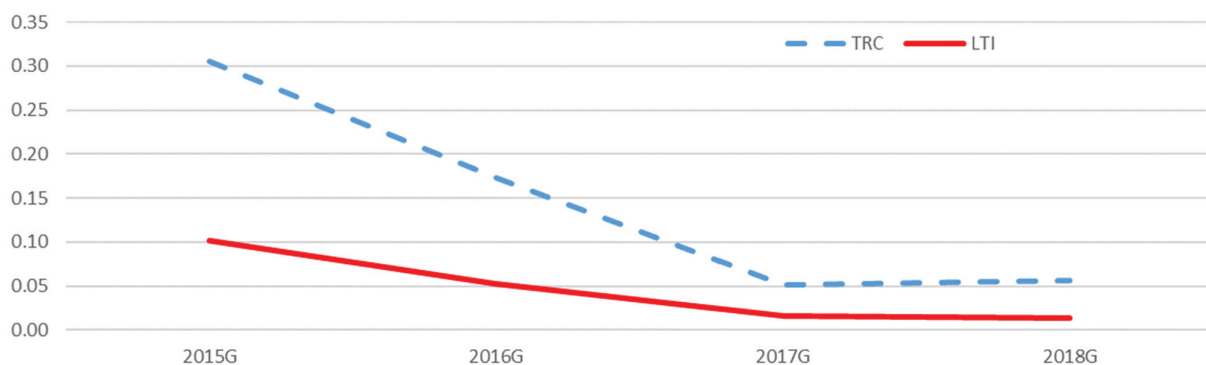
The Company employs a Safety Management System ("**SMS**") aligned with the Company's safety policy that drives a disciplined approach in establishing specific safety expectations and provides a framework for managers to fulfil their safety and loss prevention obligations. The Company continually works proactively to deliver and improve its safety performance with respect to the expectations and objectives articulated in the SMS and its underlying programmes, processes, procedures, rules, standards and instructions.

The Company benchmarks its safety performance against industry standards and performance targets that are set in line with industry practices to improve safety performance. Safety performance is measured and tracked through key performance indicators established by the HSSE Committee and reported to the Risk and HSE Committee. Formal and informal safety reviews are conducted by qualified reviewers to assure compliance and assure operational discipline.

In addition, Saudi Aramco monitors its total reportable case ("**TRC**") rate, which includes fatalities, lost time injuries ("**LTI**"), restricted duty injuries and medical treatment cases. The TRC rate for Saudi Aramco's total workforce, including contractors, from 2015G to 2018G decreased from 0.305 per 200,000 work hours to 0.056 per 200,000 work hours. Similarly, LTI during that period decreased from 0.102 per 200,000 work hours to 0.014 per 200,000 work hours.

The following chart shows the TRC rate and LTI rate for Saudi Aramco's total workforce, including contractors, from 2015G to 2018G.

**Exhibit 25: Saudi Aramco's total workforce, including contractors, TRC rate and LTI rate from 2015G to 2018G**



Source: Company.



#### 4.13.2 *Environment*

The Company's operations are subject to a number of environmental laws, regulations, protocols and policies in each of the jurisdictions in which it operates, governing, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials, the emission and discharge of hazardous materials, ground water use and contamination, discharges of water, soil contamination, hazardous substances and wastes, industrial hygiene and occupational health. The Company seeks to comply with all applicable environmental laws, regulations, protocols and policies. Saudi Aramco has established management systems and other internal processes to identify emerging environmental risks and to prepare and execute a response plan to mitigate potential impacts of those risks. In addition, for its operations within the Kingdom for which there are no applicable national environmental regulations, the Company has developed environmental standards aligned with leading industry practices to achieve the Company's environmental protection objectives. Furthermore, the Company also conducts environmental impact assessments when evaluating new projects, including assessments of project design, construction, operations and decommissioning in compliance with applicable environmental laws, regulations, protocols and policies.

The Board has an established Risk and HSE Committee to oversee the management of environmental risks and key environmental performance indicators, and the Company has established a corporate risk management programme focussed on environmental compliance. The Company also has established an environmental management system aligned to ISO 14001:2015 standards to manage environmental compliance and enhance environmental performance. Each subsidiary is responsible for establishing its own environmental compliance framework and monitoring ongoing compliance.

The Company's environmental master plan provides a framework for achieving the Company's environmental objectives in the Kingdom. Since inception of the environmental master plan in 2001G, the Company has funded 51 projects at a value of SAR 22.8 billion (\$6.1 billion) to reduce the environmental impact of its operations within the Kingdom. For a description of the domestic environmental regulations to which the Company is subject and the multilateral environmental agreements to which the Kingdom is a party that are relevant to the Company's operations in the Kingdom, see Section 5 (*Regulation of the Oil and Gas Industry in the Kingdom*).

The Company owns or operates, and in the past has owned or operated, various facilities at which releases of oil, oil products or chemicals have occurred or may have occurred, including releases from coastal facilities into the marine environment. The Company has measures in place to monitor and assess performance, to prevent releases that might occur and to remediate occurrences from facilities that it owns or operates.

Within the Kingdom, the Company works to identify and control sources of contamination in soil and groundwater through site characterisation, monitoring and risk assessment. Since 2007G, the Company has implemented a groundwater remediation programme to systematically and consistently identify and implement clean-up assessments at impacted wholly owned Company facilities within the Kingdom. This programme quantifies risks that contaminated soil or groundwater pose on human health and the environment and also develops appropriate corrective solutions tailored to specific facilities. A key component of this programme is the prevention stage, which involves addressing soil and groundwater contamination sources, reviewing project designs and environmental impact assessments and conducting field investigations. In 2016G, the Company completed a chemical spill risk assessment for its wholly owned operations in the Kingdom in order to ensure its response readiness. The assessment evaluated risks associated with potential hazardous onshore and offshore chemical spills.

As at 31 December 2017G and 2018G, the Company established provisions of SAR 796.0 million and SAR 849.0 million (\$226.4 million), respectively, for environmental liabilities. The Company relies on engineering studies, historical and technical experience, generally accepted accounting standards and other factors to identify and evaluate environmental-related reserves. The 2017G and 2018G provisions primarily relate to liabilities for environmental projects driven by governmental mandates, projects for groundwater remediation and remediation of oil impoundments throughout the Company's in-Kingdom wholly owned assets.

The Kingdom has a small number of large and productive oil reservoirs, low per barrel gas flaring rates and low water production, resulting in less mass lifted per unit of oil produced and less energy used for fluid separation, handling, treatment and reinjection, all of which contribute to low upstream carbon intensity. For 2018G, Saudi Aramco calculated its direct (Scope 1) and indirect (Scope 2) GHG emission sources from its wholly owned and operated facilities in the Kingdom. The following table sets forth Scope 1, Scope 2 and total GHG (Scope 1 and Scope 2) emissions from the upstream and downstream operations of Saudi Aramco and its in-Kingdom, wholly owned facilities by type of emissions for the year ended 31 December 2018G.

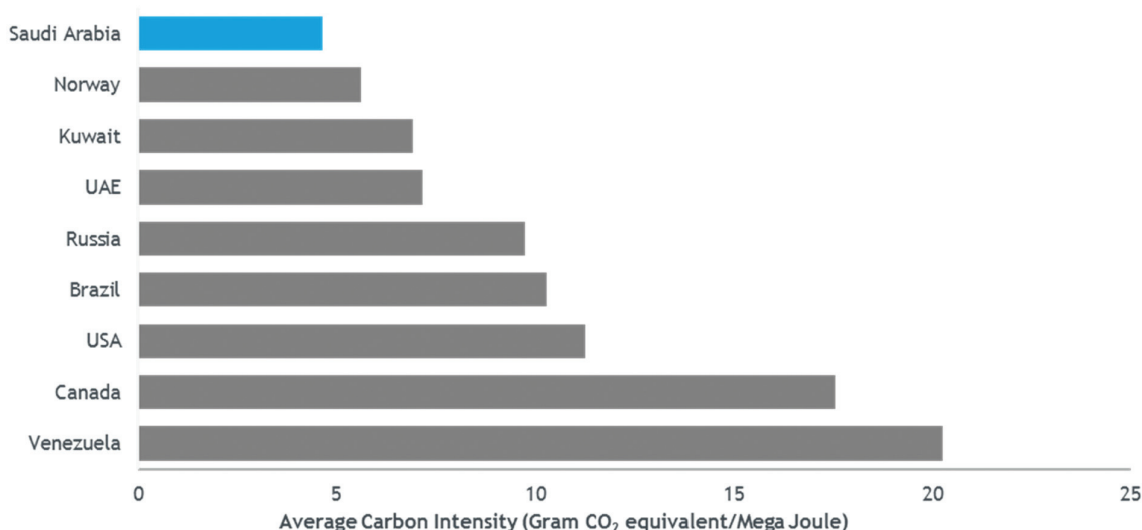
**Table 25: Scope 1, Scope 2 and total GHG (Scope 1 and Scope 2) emissions for the upstream and downstream operations of Saudi Aramco and its in-Kingdom wholly owned facilities by type of emissions for the year ended 31 December 2018G**

Type	Carbon dioxide (million tonnes)	Methane (thousand tonnes)	Carbon dioxide equivalent (methane) (million tonnes)	Nitrous oxide (thousand tonnes)	Carbon dioxide equivalent (nitrous oxide) (million tonnes)	Total carbon dioxide equivalent (million tonnes)
Scope 1 .....	45.12	48.48	1.21	0.78	0.23	46.56
Scope 2 .....	14.64	0.34	0.01	0.25	0.07	14.72
<b>Total .....</b>	<b>59.76</b>	<b>48.82</b>	<b>1.22</b>	<b>1.03</b>	<b>0.31</b>	<b>61.28</b>

Source: Company.

Saudi Aramco commissioned a limited assurance engagement on the 2018G GHG emissions in accordance with International Standards for Assurance Engagements 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. Based on the Company's 2018G upstream total deliveries of 13.2 million barrels of oil equivalent per day, the Company's 2018G upstream carbon intensity was 10.2 kilograms of carbon dioxide equivalent per barrel of oil equivalent. Additionally, according to an article published in the 31 August 2018G edition of Science Magazine, the Kingdom's volume weighted average crude oil upstream carbon intensity in 2015G ranked second lowest among the 50 countries analysed. Two of the 24 authors of such article received funding from a subsidiary of the Company and other authors received funding from other sources. The following chart shows the Kingdom's average carbon intensity compared to other major hydrocarbon producing countries according to the 31 August 2018G edition of Science Magazine.

**Exhibit 26: The Kingdom's average carbon intensity compared to other major hydrocarbon producing countries according to the 31 August 2018G edition of Science Magazine**



Source: Science Magazine, 31 August 2018G edition.

In 2018G, the Company's Environmental Protection Department established a GHG emissions management programme. The primary focus of the programme is to account for GHG emissions from the Company's operations and assets, develop relevant key performance indicators, establish GHG metric targets and support reporting requirements based on industry guidelines. The Company is pursuing various initiatives to manage the carbon footprint of its operations and assets by implementing flare gas recovery systems, energy efficiency programmes, leak detection and repair programmes and evaluating the potential utilisation of carbon dioxide in various applications, such as enhanced oil recovery. An enhanced Leak Detection and Repair programme for Saudi Aramco's methane emissions in the Kingdom prioritises actions at operating facilities and includes efforts to develop and deploy new, more efficient technologies to detect and reduce facility emissions. In 2018G, the Company's upstream methane intensity was 0.06% of its natural gas deliveries.

The Company participates in collaborations that help further its understanding of future energy, technology and potential climate change trends, including through R&D projects related to fuels, engines and new transport technologies. The Company is a founding member of the Oil and Gas Climate Initiative, a voluntary, CEO-led initiative composed of 13 global oil and gas companies committed to reducing GHG emissions through technology. Additionally, the Company is collaborating within the oil and gas industry through memberships in joint platforms such as the International Petroleum Industry Environmental Conservation Association and the Petroleum Environmental Research Forum. The Company also supports the Government's efforts to achieve the objectives set by the United Nations Framework Convention on Climate Change, the Paris Agreement, the United Nations Environment Programme, as well as other climate change mitigation and adaptation efforts.

#### 4.13.3 *Renewable Energy and Environmental Stewardship Projects*

The Company is investing in green energy and sustainability initiatives throughout its operations both in the Kingdom and abroad with international partners. The Company is deploying renewable energy systems in office buildings and industrial facilities such as production wells and bulk plants. For example, in January 2017G, the Company installed the Kingdom's first wind turbine at Turaif Bulk Plant. Additionally, the Company has installed a carpark solar panel system covering a total area of 100,000 square metres with a power generation capacity of 10.5 MW.

In the Kingdom, the Company's operational areas include vast tracts of land and sea areas that contain important and sensitive habitats and species. This natural biodiversity is considered an important asset to the Kingdom and Saudi Aramco exerts considerable effort to document, protect and enhance the Kingdom's biodiversity. For example, the Company has established a wildlife sanctuary near its Shaybah facility to promote and preserve biodiversity.

The Company has also invested in sustainability projects, such as artificial reefs deployed in the Arabian Gulf, a fish hatchery in Abu Ali, planting of more than two million mangrove trees and reserving areas with significant biodiversity. In addition, the Company recently conducted its first industrial estimate of carbon sequestration (Blue Carbon) in the marine and coastal environment. Furthermore, in 2018G, the Company commenced a programme to plant one million native trees in strategic locations throughout the Kingdom, helping to combat desertification, enhance native biodiversity and create shaded areas.

Saudi Aramco has developed an environmental stewardship programme where staff and communities are encouraged to participate in protecting the environment. The stewardship programme also extends outside the Kingdom where the Company operates with its international joint venture partners, and through collaboration with leading international conservation entities whom the Company is assisting in the protection of biodiversity globally. Saudi Aramco is working closely with the Smithsonian Institute tracking the movement of endangered animals, and with UNESCO in Asia supporting biosphere reserves and encouraging the clean-up of plastic waste along coastlines and in estuaries.

#### 4.13.4 *Flaring*

One of the Company's long-standing initiatives is to efficiently and sustainably use associated gas. Since the 1970Gs, the Company has acted to mitigate the negative environmental impacts of systematic flaring of associated gas by utilising gas for power generation and petrochemicals production, which also has positive economic benefits to the Company. Additionally, Saudi Aramco has grown the MGS which supplies gas for use in the electric power facilities located in the Kingdom and in the Kingdom's rapidly growing petrochemical sector. The development of the MGS reduced Saudi Aramco's environmental impact and GHG emissions arising from flaring, in addition to supporting national economic growth. In order to further improve its environmental performance, the Company established a flaring minimisation plan in 2006G.

With an aim to further improve its environmental performance, in August 2019G, the Company formally endorsed and signed the World Bank's initiative of "Zero Routine Flaring by 2030" with the objective of sharing best practices and knowledge in flaring minimisation, report progress and demonstrate its efforts in reaching zero routine flaring. In the first half of 2019G, the Company had less than 1% flaring of its raw gas production.

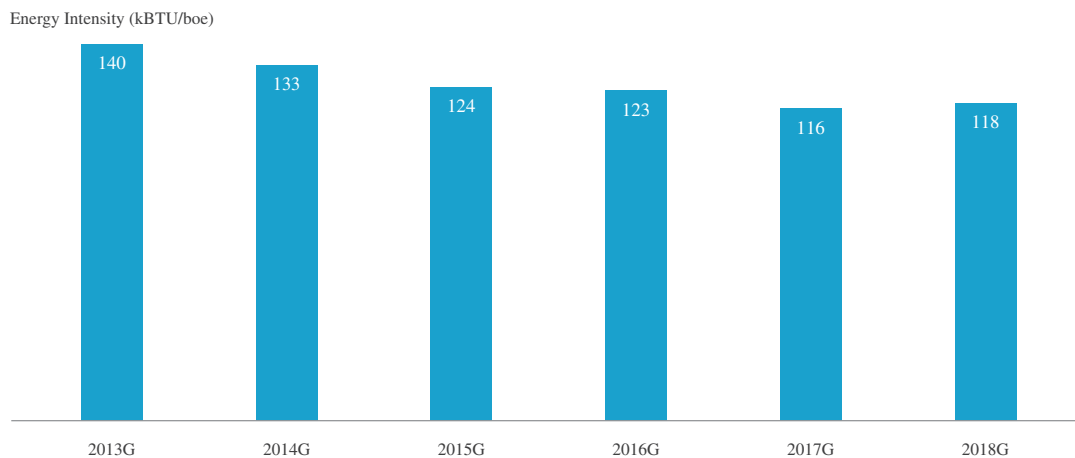
#### 4.13.5 Energy Efficiency

Saudi Aramco has been adopting and implementing energy efficient technologies and practices to reduce its energy consumption, reduce its GHG emissions, improve its plant and facility operations, and promote an environmentally conscious corporate culture. As part of its energy efficiency efforts, the Company is utilising cogeneration systems to help reduce its dependency on the national electricity grid, with the goal of ultimately reaching electrical power self-sufficiency for its operating plants.

As part of its energy efficiency efforts, the Company monitors the energy intensity of its oil and gas operations and other business activities. The energy intensity of Saudi Aramco's in-Kingdom operated facilities was 123.2 kBTU per boe, 116.3 kBTU per boe and 118.4 kBTU per boe in 2016G, 2017G and 2018G, respectively.

The following chart illustrates the energy intensity of Saudi Aramco's in-Kingdom operated facilities from 2013G to 2018G.

**Exhibit 27: Energy intensity of Saudi Aramco's in-Kingdom operated facilities from 2013G to 2018G**



Source: Company.

#### 4.13.6 Water Management

The Company monitors the total volume of water used in its in-Kingdom operations, including treated water, desalinated seawater, groundwater and reused wastewater. In 2011G, the Company established a water conservation policy that uses best practices and technologies to promote the use of sustainable sources of water, optimising water demand, maximising wastewater reuse and minimising water loss. Following the definition of freshwater consumption set forth by the IPIECA (an oil and gas industry association), the Company consumed 35.9 million cubic metres and 30.5 million cubic metres of freshwater in 2017G and 2018G, respectively.

### 4.14 Relationship with the Kingdom

#### 4.14.1 Overview of the Relationship with the Kingdom

All hydrocarbons in the Kingdom are owned by the Kingdom and, upon extraction or recovery of such hydrocarbons by the Company, title to such hydrocarbons automatically passes to the Company at the ownership transfer point. The Government has the exclusive authority to set production limits and MSC so as to manage the Kingdom's hydrocarbon resources, in accordance with the Hydrocarbons Law. The Government establishes the Kingdom's maximum level of hydrocarbon production in the exercise of its sovereign prerogative. Accordingly, the Government may in its sole discretion increase or decrease the Kingdom's maximum hydrocarbon production at any time based on its sovereign energy security goals or for any other reason. The Government communicates its determination of such production limits to the Company from time to time.

Pursuant to the Concession, the Government has granted the Company the exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, for an initial period of 40 years from 6/4/1439H (corresponding to 24 December 2017G), which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. In addition, the Concession may be extended for an additional 40 years after the initial 20 year extension subject to the Company and the Government agreeing on the terms of the extension. See Section 13.5.1 (*The Concession*).

The Kingdom is a member state of OPEC. OPEC is an intergovernmental organisation whose member countries meet periodically and engage in discussions in respect of crude oil. Any independent, sovereign decision that the Kingdom makes pursuant to such discussions is communicated by the Government to the Company and can have a direct impact on the Company. For example, following the November 2016G OPEC conference, the Kingdom decided to establish production levels for 2017G requiring the Company to produce 558,000 barrels per day fewer than the Company had originally planned. This production level remained in effect as a result of the Kingdom's decision to maintain the November 2016G production target through the June 2018G OPEC conference, when OPEC member countries called for an increase to aggregate production levels. After the December 2018G OPEC conference, the Kingdom indicated that, beginning in January 2019G and continuing for six months, it would reduce its crude oil production to an average of 10.3 million barrels per day. Furthermore, after the 2 July 2019G OPEC conference, the Kingdom indicated that it would extend the time period for which it would maintain this level of production to 31 March 2020G. For additional information concerning the Company's relationship with the Government, see Sections 13.9 (*Related Party Contracts and Transactions*), 4.15 (*Corporate Citizenship*), 4.16 (*Business Development Projects*) and 13.9.3.7 (*Corporate Citizenship*).

#### 4.14.2 *The Concession*

The Arabian American Oil Company Concession Agreement was ratified on 4/2/1352H (corresponding to 29 May 1933G) and granted the Company's predecessor certain exclusive rights, including the right to explore, drill, recover and treat crude oil and other hydrogen and carbon compounds in liquid or gaseous state within certain areas of the Kingdom (which were revised and grew over time), with limited territorial exceptions. Pursuant to Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) approving the Company's original articles, the Company enjoyed all the privileges and rights provided under the Arabian American Oil Company Concession Agreement, and all subsequent supplementary documents, agreements, governmental orders and decisions in connection therewith (collectively, the "**Original Concession**"). Effective 6/4/1439H (corresponding to 24 December 2017G), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy (the "**Minister**"), and the Company entered into the revised Concession Agreement (the "**Concession**"), which was adopted under Royal Decree No. (M/12) dated 18/1/1441H (corresponding to 17 September 2019G) and replaced and superseded in its entirety the Original Concession on such date (the "**Concession Effective Date**"). Further, on 20/1/1441H (corresponding to 19 September 2019G), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy, and the Company entered into an amendment to the Concession, with effect from 1 January 2020G (the "**Concession Amendment**").

In return for certain royalty payments determined in accordance with the Concession to be made by the Company to the Government, the Government has granted the Company the exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, for an initial period of 40 years from the Concession Effective Date, unless terminated earlier in accordance with its terms. The Government will issue a decision to extend the Concession for a period of 20 years on the 30th anniversary of the Concession Effective Date, unless the Company has not met certain specific conditions set forth in the Concession. The Concession can be further extended by an additional 40 years following the 60th anniversary of the Concession Effective Date by mutual agreement between the Government and the Company. The Excluded Areas consist of: (a) the boundaries of the Holy Mosques in Makkah Al-Mukarramah and Madinah Al-Munawwarah, (b) the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait and (c) the common zone in the Red Sea in accordance with the agreement between the Kingdom and the Republic of Sudan.

The Concession requires that all Company contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise shall be on a commercial basis. The Concession also addresses other areas concerning the Company's relationship with the Kingdom, such as hydrocarbon discoveries and development, local labour requirements and communication of financial information, among other subjects.

For a more detailed summary of the Concession, see Section 13.5.1 (*The Concession*).

#### 4.15 Corporate Citizenship

The Company engages in a range of corporate social responsibility projects and initiatives to support the communities and the environment in which it operates and leverages its know-how and operational capabilities in furtherance of these projects. The Company considers these activities to be “corporate citizenship” projects and initiatives. In addition to projects undertaken on its own initiative, the Government has directed, and may in the future direct, the Company to undertake projects or provide assistance for initiatives outside the Company’s core businesses in furtherance of the Government’s objectives. Prior to 2017G, the Government reimbursed the Company for its costs incurred relating to certain of these Government-directed activities by allowing the Company to reduce its tax liability or, in some cases, its taxable income by the amount of costs incurred. Beginning on 24 December 2017G, the Concession requires that all Company contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise shall be on a commercial basis.

The largest corporate citizenship project undertaken by the Company on its own initiative was the construction of The King Abdulaziz Center for World Culture (“iThra”) in Dhahran, which opened in late 2017G. iThra is the first of its kind in the Kingdom and contains an 18-floor “knowledge tower” with learning facilities, a children’s museum, performing arts theatre library and cinema. Through iThra, the Company commits resources across the Kingdom to educating and inspiring youth culturally and through development of STEM knowledge and skills.

Other corporate citizenship initiatives have included the following:

- In 2007G, the Government directed the Company to build a world-class post-graduate university to complement existing universities in the Kingdom. KAUST sponsors and promotes advanced programmes in strategic fields of science research and technology development in an effort to achieve the Kingdom’s strategic, economic and social goals and assist domestic industries in becoming competitive at an international level.
- At the direction of the Government, in 2009G the Company took part in the establishment of KAPSARC, an international research and policy centre that investigates issues related to energy economics, the environment and energy policy. In 2015G, KAPSARC moved into its Riyadh headquarters, constructed by the Company.
- As a company operating in an industry that depends on STEM fields, the Company has committed resources in the Kingdom, including through KAUST, and abroad to educating students in developing STEM skills. For example, the Company facilitated the expansion of the Cambridge Chemistry Challenge at the University of Cambridge and assisted The Academy of Mathematics and Systems Science in China to expand its research and training capabilities in engineering and math. The Company also supports research on oil and gas in the Middle East and climate change through a fellowship programme at the Oxford Institute for Energy Studies at the University of Oxford.
- The Company has taken a leading role in promoting and supporting the right of women to drive in the Kingdom following changes to applicable laws in 2018G. The Company opened a driving centre with the objective of providing training to Saudi Aramco female employees and employees’ female family members, as well as to encourage a safer and friendlier driving environment on the Kingdom’s roadways.
- The Company provided the funds, and a partner provided the land, to construct the Shamah Autism Center in Dammam. This is the first multidisciplinary autism centre for Saudi children in the Eastern Province of the Kingdom. In addition, the Company constructed the Ajyal Center for Comprehensive Education & Life Skills. The centre serves children with developmental disabilities, including autism spectrum disorder, behaviour disorders and intellectual disabilities.
- In addition to environmental initiatives directly associated with operating its facilities, the Company has established a wildlife sanctuary in the Rub’ al-Khali near its Shaybah facility to promote and preserve biodiversity and has planted hundreds of thousands of mangroves along the shores of the Arabian Gulf and established artificial reefs to protect and preserve ecosystems.
- The Company partners with various institutions to support research of biodiversity, environmental challenges and climate change.

- The Company has established a partnership with Technical & Vocational Training Corp. and other stakeholders to build training academies for young Saudis that provides training in various industry sectors through a sponsorship scheme followed by employment. As at 30 September 2019G, the Company has established 16 training centres. These training centres contribute to broadening the pool of professional talent in the Kingdom and furthers the Company's In-Kingdom Total Value Add Development Programme, which aims to increase the use of in-Kingdom suppliers of goods and services.
- With the goal of igniting entrepreneurship and enhancing the Kingdom's entrepreneurial and innovation ecosystem, the Company established The Saudi Aramco Entrepreneurship Center (Wa'ed) in 2011G. Wa'ed deploys a suite of programmes, including enterprise development, seed funding, debt financing and equity investments, to assist entrepreneurs in establishing and expanding their ventures. These programmes support the development of small- and medium-sized enterprises capable of diversifying the Kingdom's economy.

In 2018G, the Company adopted a new Corporate Citizenship Policy which sets out four target areas for future expenditures: community economic growth and development, protection of the natural environment, community economic empowerment and community-based corporate citizenship initiatives.

The Company expects to continue to engage in a range of corporate citizenship projects and initiatives in the future. These include projects and initiatives which the Company believes contribute to society in the Kingdom and aid in the development of a skilled workforce.

For additional information about the Company's corporate citizenship activities, see Sections 7.5.2.4 (*Selling, Administrative and General*) and 13.9.3.7 (*Corporate Citizenship*).

#### 4.16 Business Development Projects

The Company engages in business development projects that it believes benefit its core activities and support the development of the Kingdom's energy sector and local supply chain partners in ways that enhance its long-term commercial interests.

In 2013G, the Company established SADCO as a wholly owned subsidiary to build a portfolio of companies and investments that reduce the Company's procurement costs and supply chain risks. These new businesses are intended to serve as competitive suppliers for the Company as well as third parties. SADCO has formed the Jasara Program Management Company, a joint venture with Jacobs Engineering Inc. and the PIF, to provide professional programme and construction management services for government, semi-government and Company infrastructure projects in the Kingdom on an arm's length basis and undertake the management and development of these types of projects. See Section 13.9.3.8 (*Other Transactions*).

In addition, in support of the Company's initiative to develop local supply chains to enhance its long-term commercial interests and reduce procurement costs, on 1 December 2015G, the Company launched its In-Kingdom Total Value Add Development Programme to increase the use of in-Kingdom suppliers of goods and services. The Company believes that the scale of the Company's procurement programme can support building a diversified energy sector in the Kingdom. In addition, the Company believes this programme has a positive impact on the Kingdom's economy and supports the Company's efforts to improve the efficiency and effectiveness of its supply chain. In 2018G, the Company's In-Kingdom Total Value Add score was 52%.

#### 4.17 Employee Development and Other Programmes

The Company's employees and workplace culture are important to its success. The Company invests in its personnel and has implemented a number of training and skills development programmes. The Company believes these programmes allow it to shape its workforce for the future. For example, the Company integrates hands-on technical training and online classes, rotational assignments between business lines within the Company, internship and mentorship opportunities, sponsored university degree programmes and leadership courses to develop its own employees and talent. In addition, to promote professional development, the Company has established and maintained an e-learning solution that contains a substantive set of courses that include tailored administrative, technical and business courses. This tool is accessible to all employees at no cost to enable continuous development. The Company also has an apprentice programme that supports high-achieving high school and vocational college students and teaches them skills to enable them to join the Company's workforce. Moreover, in order to promote the adoption of the Company's ethics and compliance principles into its corporate culture, the Company provides regular training to employees across business lines, as well as suppliers and contractors, in connection with its Anti-Bribery and Anti-Corruption, Conflict of Interest, and Business Ethics policies.

As at 31 December 2018G, 4.7% of the Company's workforce consisted of women. To further increase the percentage of women employed by the Company and to broaden the pool of qualified female employees in the energy sector generally, the Company conducts STEM programming in elementary schools to encourage future careers in these fields. The Company also sponsors young Saudi women pursuing degrees in STEM subjects through various training institutes, academies and a university scholarship programme.

The Company also is constructing a fully serviced community including houses, schools and other social facilities in South Dhahran that will be available for eligible employees and their families. This community includes affordable housing for eligible employees to purchase as part of the Company's home ownership programme. For additional information on the Company's employees, see Section 6.12 (*Employees*).

#### **4.18 Business Continuity**

Other than as described in Section 4.3 (*Recent Developments*), there has been no suspension or interruption in the Company's business or that of its subsidiaries during the 12-month period preceding the date of this Prospectus which would affect or have a significant impact on their financial position and no material change in the nature of its or their business is contemplated.



## 5. REGULATION OF THE OIL AND GAS INDUSTRY IN THE KINGDOM

### 5.1 Overview of Governance, Legal Foundations and Economic Principles

#### 5.1.1 Governance

The Kingdom is a monarchy with a political system rooted in the traditions and culture of Islam. It was established by the late King Abdul Aziz bin Abdul Rahman bin Faisal Al Saud (the “**Founder**”) in 1932G, with the issuance of Royal Decree No. 2716, dated 17/5/1351H (corresponding to 23 September 1932G). The Custodian of the Two Holy Mosques, King Salman bin Abdulaziz bin Abdul Rahman bin Faisal bin Turki bin Abdullah bin Mohammed bin Saud, is both the Kingdom’s Head of State and Head of Government, and has been so since 23 January 2015G.

The Basic Law of the Kingdom (the “**Basic Law**”) was promulgated under Royal Order No. A/90, dated 27/8/1412H (corresponding to 1 March 1992G) and provides that the Holy Quran and Sunnah (i.e., the traditions of the Prophet Mohammad (PBUH)) form the primary sources of law in the Kingdom. The Basic Law sets out the framework for government and provides for the powers and authorities of the executive, administrative, and judicial authorities of the Kingdom, under the ultimate authority of the King. The Basic Law also sets forth, in general terms, the respective rights and obligations of the Kingdom and its citizens.

The Monarchy in the Kingdom is limited to the sons of the Founder and their male descendants, among whom a Crown Prince is selected and appointed pursuant to the Law of the Allegiance Council. The King also appoints and relieves Deputy Prime Ministers and members of the Council of Ministers and specifies the government departments, agencies, and authorities for which a minister shall be responsible by Royal Order.

The Law of the Council of Ministers sets forth the power of the Council of Ministers with respect to internal and foreign affairs, and to the organisation of the agencies of the Government and coordination among them. It also sets forth the requirements that ministers must meet, and their powers and accountability, among other things. The Council of Ministers is responsible for, among other things, executive and administrative matters such as foreign and domestic policy, defence, finance, health and education. The King presides over the Council of Ministers, in his role as Prime Minister, and is assisted in the discharge of his functions by the members of the Council of Ministers in accordance with the provisions of the Basic Law and other laws.

The Law of the Shura Council sets forth the advisory duties of the Shura Council with respect to economic and social plans, laws, regulations, international treaties, conventions and concessions. It also sets forth the requirements that members of the Shura Council must meet, their duties and appointment and dismissal, among other things. The Shura Council cannot pass or enforce laws and can only propose its opinions to the Prime Minister.

The Kingdom has 13 administrative provinces governed by the Law of Provinces whose aim is to regulate the administrative work and develop the provinces of the Kingdom. It sets forth the duties and responsibilities of the administrators of each province, forms councils for each province and lays out their membership requirements, authorities and duties.

#### 5.1.2 Legal Foundations

Saudi law is derived from the Basic Law and legislation is enacted in various forms, the most common of which are Royal Orders, Royal Decrees, High Orders, Council of Ministers’ resolutions, ministerial resolutions and ministerial circulars having the force of law.

The Basic Law provides that all God’s bestowed wealth, be it underground, on the surface, or in national territorial waters, on the land or maritime domains under the Kingdom’s control are the property of the Kingdom. The Basic Law states that the law can set forth the means for exploiting, protecting and developing such resources for the benefit, security and economic prosperity of the Kingdom. No concession can be granted and no public resources of the Kingdom can be exploited except pursuant to a law in accordance with the Basic Law.

The Basic Law provides that the Kingdom will guarantee private property and its inviolability and requires that no one be deprived of their property except for the public interest, provided the owner is fairly compensated.

### 5.2 Law on Hydrocarbons

#### 5.2.1 Overview

The Hydrocarbons Law was enacted by Royal Decree No. M/37, dated 2/4/1439H (corresponding to 20 December 2017G) and applies to hydrocarbons, hydrocarbon resources and the hydrocarbon operations existing within the territory of the Kingdom.

### **5.2.2 Licences**

No hydrocarbon operations can be conducted in the Kingdom without obtaining a licence in accordance with the Hydrocarbons Law. The Government grants licences related to hydrocarbon operations pursuant to regulations, procedures and policies established from time to time, which outline the terms and conditions relating to the granting of a licence.

The grant of a licence pursuant to the Hydrocarbons Law does not, and cannot, confer any right of ownership of the soil or subsoil in the licence area. In addition, the Government retains the right to explore for and exploit any natural resource other than hydrocarbons in the licence area and may exercise such right in a manner that does not prejudice the licensee's rights and does not hinder the hydrocarbon operations conducted by a licensee.

### **5.2.3 Ownership Rights**

Under the Hydrocarbons Law, the Kingdom exercises sovereignty over all hydrocarbon deposits, hydrocarbons and hydrocarbon resources. All hydrocarbons in the Kingdom are owned by the Kingdom and, upon extraction or recovery of such hydrocarbons by the licensee, title to such hydrocarbons shall automatically pass to the licensee at the ownership transfer point. The Kingdom's ownership of hydrocarbon deposits and hydrocarbon resources may not be transferred.

### **5.2.4 Supervision and Implementation of the Hydrocarbons Law**

The Ministry of Energy is the only body responsible for implementing the Hydrocarbons Law and overseeing all aspects of a licensee's hydrocarbons operations, including the licensee's technical operations and the review of all the licensee's revenues and expenses. The Ministry of Energy acts as a liaison between relevant bodies and the licensee in relation to a licence. The Ministry of Energy is also responsible for preparing and overseeing the national strategies and policies related to hydrocarbons to ensure the implementation, development and appropriate use of hydrocarbon resources, and conservation of the Kingdom's hydrocarbon reserves for future generations.

### **5.2.5 Production Decisions**

The Kingdom has the sovereign, exclusive and binding authority to make production decisions related to both the maximum level of hydrocarbons that a licensee can produce at any given point in time and the level of MSC that a licensee must maintain. In each case, the Kingdom shall take into account the Kingdom's economic development, environment conservation, national security, political and developmental goals, foreign policy, diplomatic considerations, domestic energy needs, public interest and any other sovereign interest when making a production decision. In setting the level of MSC, consideration shall be given to the economic or operational effects of a licensee. A licensee must provide the Kingdom with any requested information relating to hydrocarbons exploration, extraction and production, including financial and technical data, discovery data and any other information that could facilitate the issuance of a production decision. The Kingdom has unrestricted access to such information.

### **5.2.6 Conservation of Hydrocarbon Resources**

The Hydrocarbons Law requires that hydrocarbons operations be managed and maintained in a professional, adequate and active manner in accordance with international industry standards, the Hydrocarbons Law and regulations, and in an economically feasible and efficient manner that promotes the long-term productivity of reservoirs in the licensed area and supports the prudent stewardship of hydrocarbon resources and hydrocarbons, and limits their abandonment.

### **5.2.7 Additional Licensees Obligations**

A licensee is responsible for taking all prudent and sound procedures to ensure the safety of the licensee's hydrocarbon operations and facilities, in accordance with international industry standards and applicable laws. A licensee is also obligated to take all required precautions, in accordance with the relevant hydrocarbons regulations and international industry standards, to prevent waste and leakage of hydrocarbons, damage to formations containing water and hydrocarbons during drilling, repairing or deepening of wells, or in events of abandonment or relinquishment, and to prevent leakage of gas and liquids into bearing layers or other layers.

The Hydrocarbons Law prohibits any licensee from selling to any entity any hydrocarbons or derivatives obtained through the licence in violation of what the Kingdom considers necessary to protect the fundamental security interests of the Kingdom in times of war or other emergencies in international relations.

### 5.3 Law of Gas Supplies and Pricing

#### 5.3.1 Overview

The GSPR was enacted by Royal Decree No. M/36, dated 25/6/1424H (corresponding to 23 August 2003G), and applies to the activities of transmission, processing, fractionation, storage, local distribution, aggregation and sales and marketing (each, a “**Regulated Activity**”) of any gaseous or liquid hydrocarbons (other than crude oil or condensate) produced in the Kingdom which have been subject to treatment in a gas treatment plant (“**Regulated Hydrocarbons**”).

#### 5.3.2 Licences

Pursuant to the GSPR, a licence is required for the conduct of any Regulated Activity. In considering an application for a licence, the Ministry of Energy takes into account the long-term security of supply of any Regulated Hydrocarbons, the avoidance of undesirable duplication consistent with the optimal development of the Kingdom’s gas industry and the proximity of the proposed Regulated Activity to the MGS.

#### 5.3.3 The Company as Aggregators and Tariffs

Under the GSPR, the Company acts as the aggregator of Regulated Hydrocarbons which access the MGS.

The Ministry of Energy publishes transportation, processing and fractionation tariffs, and other terms and conditions applicable to the MGS and to connections to the MGS as prescribed in the rules of implementation of the GSPR. The tariff and other terms and conditions for services provided through any pipeline that is not connected to the MGS are negotiated between the relevant parties. The rules of implementation of the GSPR set out the criteria for determining third party access tariffs which may be charged for the utilisation of any local distribution system.

#### 5.3.4 Marketing and Sales Rights; Price for Natural Gas

Pursuant to the GSPR, the Company performs all domestic marketing and sales of natural gas and NGLs from the MGS with certain exceptions. The Company also undertakes the export of NGLs produced within the Kingdom. Any company that produces Regulated Hydrocarbons in the Kingdom and does not access the MGS may domestically consume, sell or otherwise domestically dispose of such Relevant Hydrocarbon as per the terms set by the Ministry of Energy. All natural gas produced by any company is to be priced at the regulated price in the Kingdom at the point of delivery to a major consumer or to a licensee entitled to operate a local distribution system.

#### 5.3.5 Allocation of Natural Gas and NGLs

The necessary allocation to users of Regulated Hydrocarbons is effected by the Ministry pursuant to criteria set by the Ministry of Energy on the basis of sectorial demand estimates for each of the electricity sector, the petrochemical sector, the water desalination sector, the oil sector and other industrial sectors, reflecting the usages of natural gas and NGLs that achieve the optimal efficiency and produce the highest added value to the national economy of the Kingdom.

### 5.4 Regulated Domestic Pricing of Certain Hydrocarbons

#### 5.4.1 Setting of Domestic Prices for Regulated Hydrocarbons

Pursuant to a series of Council of Ministers Resolutions, the Kingdom has established regulated prices for domestic sales of certain hydrocarbons: crude oil, natural gas (including ethane), NGLs (propane, butane and natural gasoline) and certain refined products (kerosene, diesel, heavy fuel oil and gasoline).

#### 5.4.2 Liquids Price Equalisation

Pursuant to Council of Ministers Resolution No. 406, dated 28/6/1438H (corresponding to 27 March 2017G), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/2465/1439, dated 10/4/1439H (corresponding to 28 December 2017G), when the Company sells crude oil and certain refined products (each a “**Relevant Liquid Product**”) domestically at a price below the corresponding equalisation prices (described below), the Company is entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of the Company’s compliance with the Kingdom’s current pricing mandates (the “**Liquids Price Equalisation**”). The Ministerial

Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/424/1441, dated 18/1/1441H (corresponding to 17 September 2019G), effective 1 January 2020G, will supersede the prior Ministerial Resolution and expand the equalisation mechanism to include LPGs and certain other products. In the event the equalisation price is less than the regulated price, the difference would be due from the Company to the Government.

The Ministry of Energy is responsible for administering the Liquids Price Equalisation regime, including the setting of the equalisation prices from time to time. The equalisation prices are established separately by the Ministry of Energy for each Relevant Liquid Product using a combination of either internationally recognised indices or, where relevant, the Company's official selling price and, depending on the Relevant Liquid Product, on the basis of export parity, import parity or a combination of both. The Company is required to provide information and technical assistance to the Ministry of Energy as necessary for this purpose.

The compensation from the Government is accounted for on a monthly basis and is calculated as the positive difference between the equalisation prices and the regulated prices (minus any Government fees). The Company must provide the Ministry of Energy with a statement detailing the total amount due to the Company in a monthly period no later than 30 days after the relevant monthly period end. The Company may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by the Company to the Government, such as royalties.

#### 5.4.3 *Gas Pricing*

From time to time, the Kingdom establishes certain prices for the domestic sale of gas hydrocarbons (the "**Domestic Price**"), including those for Regulated Gas Products. Pursuant to Council of Ministers Resolution No. 370, dated 10/7/1439H (corresponding to 27 March 2018G), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 01-5928-1439, dated as at 27/8/1439H (corresponding to 13 May 2018G), effective 17 March 2018G, the Kingdom established the price due to licencees for the domestic sale of Regulated Gas Products (the "**Blended Price**") in order to ensure that such licencees making gas investments realise a commercial rate of return suitable for the development and exploitation of gas resources in the Kingdom (with reasonable rates of return on existing non-associated gas projects and on incremental future non-associated projects).

Effective 17 September 2019G, Council of Ministers Resolution No. 55, dated 18/1/1441H (corresponding to 17 September 2019G), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/423/1441, dated 18/1/1441H (corresponding to 17 September 2019G), were passed, superseding the prior Council of Ministers' resolutions and ministerial resolutions, and removing the requirement that the Domestic Price be no less than the Blended Price. The new framework instead provides that the licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of the licencees' compliance with the Kingdom's pricing mandates if the Domestic Prices are not set at least at the Blended Prices. In the event that the Blended Price is less than the Domestic Price, the difference would be due from the Company to the Government.

The Ministry of Energy is responsible for administering this regime, including setting the Blended Prices from time to time. The Blended Prices are established separately by the Ministry of Energy for each Regulated Gas Product. The Company is required to provide information and technical assistance to the Ministry of Energy as necessary for this purpose.

The compensation from the Government is accounted for on a monthly basis and is calculated as the positive difference between the Blended Prices and the Domestic Prices (minus any Government fees). The Company must provide the Ministry of Energy with a statement detailing the total amount due to the Company in a monthly period no later than 30 days after the relevant monthly period end. The Company may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by the Company to the Government, such as royalties.

#### 5.4.4 *Government Guarantee*

The Company sells hydrocarbon products to various Government and semi-Government entities, including ministries and other branches of the Government, and separate legal entities in which the Government has share ownership or control. Effective 1 January 2017G, the Government guaranteed amounts due to the Company from these entities, subject to a limit on the amount of the guarantee for each entity. The aggregate amount guaranteed in 2017G, 2018G and 2019G was SAR 22.4 billion, SAR 32.7 billion and 26.7 billion, respectively. Prior to the beginning of each subsequent fiscal year or during such year upon the change to any Government established

domestic prices for hydrocarbon products (such regulated sales constituting the majority of the sales to Government and semi-Government entities covered by the guarantee), the Ministry of Energy will consult with the Ministry of Finance and will provide the Company with a list of the entities to be covered by the guarantee for that year and the guarantee limit for each covered entity. Government entities previously covered will remain subject to the guarantee, but the guarantee will cease with respect to any entity in which the Government has share ownership or control if such entity pays amounts due to the Company on a timely basis for five years. The Company is permitted to discontinue supply to any such Government or semi-Government customer upon the exhaustion of the credit limit or if such customer is no longer a guaranteed customer and fails to pay any amounts when due. The Company may set off any guaranteed amounts that are past due against taxes due to the Government, or if the amount of taxes are inadequate, any other amounts the Company owes to the Government.

## 5.5 Other Relevant Laws and Regulations

### 5.5.1 Health and Safety Regulations

Health and safety matters associated with oil and gas activities are regulated through several Government authorities, including the Ministry of Interior. In addition, the High Commission for Industrial Security issues safety and fire protection directives for industrial facilities which set forth minimum requirements for health and safety management systems. Health and safety principles and obligations are included in Part 8 (Protection against Occupational Hazards, Major Industrial Accidents and Work Injuries, and Health and Social Services) of the Saudi Arabian Labour Law issued under Royal Decree No. M/51, dated 23/8/1426H (corresponding to 27 September 2005G), as amended, and Part 5 of the Social Insurance Law, enacted by Royal Decree No. M/22 dated 6/9/1389H (corresponding to 15 October 1969G) as amended by Royal Decree No. M/33 dated 3/9/1421H (corresponding to 29 November 2000G).

### 5.5.2 Environmental Regulations

Under the General Environmental Law, enacted by Royal Decree No. M/34, dated 28/7/1422H (corresponding to 16 October 2001G), and its implementing regulations issued by the Ministry of Defence Resolution No. 1/1/4/5/1/924 dated 3/8/1424H (corresponding to 30 September 2003G) as amended by the Ministry of Defence Resolution No. 1/1/4/5/2391 dated 8/5/1426H (corresponding to 15 June 2005G), the General Authority of Meteorology and Environmental Protection (“GAMEP”) as well as the MEWA are charged with the general supervision of environmental affairs in the Kingdom. This law sets out wide-ranging prohibitions of pollution and contamination of air, land and water, with particular reference to all parties involved in services, industry or other economic activities. Owners of “projects”, which are defined as utilities and facilities that may have an effect on the environment, are required to comply with existing and future environmental specifications, standards, measurements and guidelines as promulgated by GAMEP or the MEWA and set out in the appendices of the corresponding implementing regulations. Prior to the initiation of a project, an environmental evaluation study, identifying: (i) potential environmental impacts; (ii) appropriate actions and means to prevent or reduce negative impacts; or (iii) appropriate actions to increase the project’s positive returns to the environment, must be completed in accordance with the relevant environmental specifications and standards.

Apart from national environmental legislation, other regulations are applicable in certain areas of the Kingdom. The Royal Commission for Jubail and Yanbu’ has issued detailed local environmental regulations applicable to facilities located within the Royal Commission areas and contractors operating therein (i.e., the Jubail Industrial City Royal Commission Environmental Regulations of September 1999G). The Company separately requires compliance with environmental standards in certain circumstances. For example, the Company administers the oil loading terminals at Ras Tanura, Ju’aymah and several smaller terminals independently of the Saudi Ports Authority.

### 5.5.3 Saudisation

The Kingdom has promulgated a Saudisation policy (“Saudisation”) implemented by the Ministry of Labour and Social Development. Saudisation requires Saudi companies to ensure that a certain percentage of their workforce comprises Saudi nationals. Further, investors in the energy sector are encouraged to abide by the Kingdom’s broad policies of ensuring a commitment to the training and employment of Saudis. The Nitaqat Saudisation Programme (the “Nitaqat Programme”) was approved pursuant to the Minister of Labour and Social Development Resolution No. 4040, dated 12/10/1432H (corresponding to 10 September 2011G), based on Council of Ministers Resolution No. 50, dated 21/5/1415H (corresponding to 27 October 1994G), which was applied as at 12/10/1432H (corresponding to 10 September 2011G). The Ministry of Labour established the Nitaqat Programme to encourage establishments to hire Saudi nationals. The Nitaqat Programme assesses an

establishment's Saudisation performance based on specific ranges of compliance, which are platinum, green (which is further divided into low, medium and high ranges), yellow and red. The Company has been classified under the "High Green" category, which means that the Company complies with the current Saudisation requirements, which accordingly allow the compliant companies to secure work visas. As at 31 December 2018G, approximately 88.1% of the Company's employees and approximately 94.7% of the Company's senior management and leadership teams were Saudi nationals.

Moreover, the Ministry of Labour and Social Development has approved a new amendment to the Nitaqat Programme under the "Nitaqat Mawzon" Programme in order to improve the market's performance and development and to eliminate non-productive nationalisation. It was intended to come into effect on 12/3/1438H (corresponding to 11 December 2016G), but in response to private sector demands for additional time to achieve the nationalisation rate, the Ministry of Labour and Social Development postponed the programme until further notice and no new implementation date has been set.

Under the "Nitaqat Mawzon" programme, points would be calculated based on five factors: (i) the nationalisation rate; (ii) the average wage for Saudi workers; (iii) the percentage of female nationalisation; (iv) job sustainability for Saudi nationals; and (v) the percentage of Saudi nationals with high wages. Currently, entities continue to be ranked on the basis of a system of rolling averages which calculate average weekly "Saudisation" over a 26 week period.

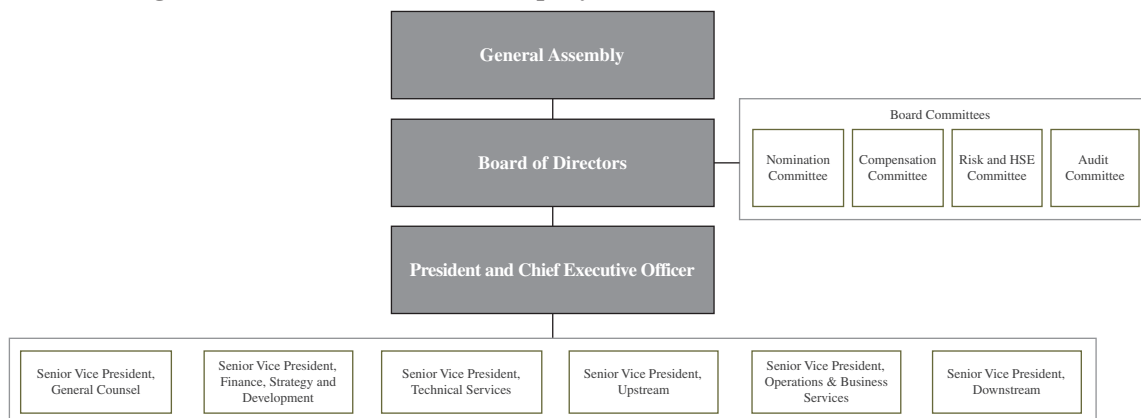
## 6. ORGANISATIONAL STRUCTURE AND CORPORATE GOVERNANCE

### 6.1 Organisational Structure

The Company's Board of Directors assumes responsibility for the overall management and supervision of the Company and the Senior Management of the Company are responsible for the Company's day-to-day operations, in particular, the President and Chief Executive Officer.

The following chart sets forth the organisational structure of the Company.

**Exhibit 28: Organisational structure of the Company**



Source: Company.

### 6.2 Shareholding Structure

The name and ownership interest of the Selling Shareholder (who is also the sole Substantial Shareholder) pre- and post-offering is provided in the following table.

**Table 26: Selling Shareholder and the ownership interests in the Company pre- and post-Offering**

Shareholder	Pre-Offering			Post-Offering <sup>(1)</sup>		
	No. of Shares	Percent	Share Capital (SAR)	No. of Shares <sup>(2)</sup>	Percent	Share Capital (SAR)
Government <sup>(3)</sup>	200,000,000,000	100%	60,000,000,000			
Public	—	—	—			
Company Treasury <sup>(4)</sup>	—	—	—			
<b>Total</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>	<b>200,000,000,000</b>	<b>100%</b>	<b>60,000,000,000</b>

Source: Company.

(1) To be determined at the end of the Book-Building Period.

(2) Senior Executives may purchase Shares from the Government concurrently with the consummation of the Offering. Such Shares will not be counted towards the public float.

(3) The Selling Shareholder undertakes to disclose details of any disposition of its Shares, upon completion of such disposition, after the commencement of trading of the Shares on the Exchange.

(4) Concurrently with the closing of the Offering, the Government will sell Shares with a value of \$1.0 billion (based on the Final Offer Price) to the Company for use under the Saudi Aramco Share Plan. See Section 6.9 (Saudi Aramco Share Plan).

### 6.3 Board of Directors

#### 6.3.1 Composition of the Board of Directors

The Board of Directors comprises 11 Directors elected by an Ordinary General Assembly convened in accordance with the Bylaws. The State shall directly nominate six candidates for election to the membership of the Board. The other five Directors shall be independent, to satisfy the minimum number required by the law and regulations of the Kingdom. Any shareholder or a group of shareholders, other than the State, holding more than 0.1% of the ordinary shares can propose a candidate for membership on the Board to the Nomination Committee. All other nominations for membership on the Board of Directors shall be made by the Nomination Committee of the Board. All holders of ordinary shares, including the State, shall have the right to vote at the Ordinary General

Assembly for the election of all members of the Board, other than the President and Chief Executive Officer of the Company. The President and Chief Executive Officer of the Company shall be a permanent Board member, provided that he shall not be the Chairman of the Board. The President and Chief Executive Officer's membership shall not require any further procedures by the General Assembly. The Board shall appoint a Secretary chosen from its members or from other persons. The Board shall determine the authorities, rights and benefits of the Secretary. The term of office of the Chairman, Deputy Chairman and the Secretary (to the extent that the Secretary is a member of the Board) shall not exceed the term of his or her respective Board membership. The Board may reappoint and may dismiss the Secretary.

The Companies Law, the Bylaws and the internal governance regulations of the Company determine the duties and responsibilities of the Board of Directors. The term of a Director is not to exceed three years. There is no limit on the number of terms that a Director may serve on the Board.

In accordance with the Company's Bylaws, the Directors shall continue to serve on the Board until their successors are duly elected in accordance with the laws and regulations in force in the Kingdom. The Ordinary General Assembly may, at any time, dismiss all or some of the Directors, without prejudice to the right of the dismissed member to hold the Company liable for accrued and unpaid compensation if the dismissal has taken place without acceptable justification. A Director may resign from office at any time and for any reason without bearing any liability arising from the act of resignation. The State's voting right at the Ordinary General Assembly on the dismissal of the members of the Board shall include voting on independent directors and members who have not been nominated by it.

Pursuant to the Company's Bylaws, if the position of a Director becomes vacant, the Board may elect a temporary member to fill the vacancy by the affirmative vote of a majority of the remaining members of the Board, provided that (i) if the vacant position was previously held by a member nominated by the State, such replacement member shall be nominated by the State; and (ii) such replacement member shall have the appropriate experience to achieve the Company's objectives. In any event, the Ministry of Commerce and Investment, the Ministry of Energy, Industry and Mineral Resources, and, if the Company is listed, the Capital Markets Authority, shall be notified within five Business Days from the date of appointment, and such appointment shall be submitted to the following meeting of the Ordinary General Assembly for approval. The new member shall complete the unexpired term of such member's predecessor. Should the members of the Board be below the minimum legally required number, the current members of the Board shall invite the Ordinary General Assembly to convene within sixty days to elect the required number of Board member.

The Company's Bylaws, which set forth requirements concerning the composition of its Board, including that the number of independent directors must satisfy the minimum requirements of applicable laws and regulations in the Kingdom, were approved by virtue of Council of Ministers Resolution No. 180, dated 1/4/1439H (corresponding to 19 December 2017G). This Council of Ministers Resolution states that notwithstanding the provisions of the Bylaws, the first Board shall be formed by a Council of Ministers resolution based on the recommendation of the Minister of Energy until such time that a Board is formed pursuant to the provisions of the Bylaws. As such, the Council of Ministers issued Resolution No. 428, dated 8/8/1439H (corresponding to 24 April 2018G) forming the Board and designating Mr. Moody-Stuart, Mr. Gould, Ms. Elsenhans and Mr. Cella as independent directors. The resolution also appointed Mr. Liveris as an independent director with effect from 1 July 2018G. In addition, the Council of Ministers issued Resolution No. 8, dated 4/1/1441H (corresponding to 3 September 2019G) appointing H.E. Yasir O. Al-Rumayyan as Chairman of the Board of Directors and H.E. Nabeel M. Al-Amudi as a Director of the Company.

The business address of each Director is the registered address of the Company. There are no existing or potential conflicts of interest between any duties of any Director towards the Company and the Director's private interests or other duties.



The following table sets forth the names and details of the current Directors.

**Table 27: The Company's Board of Directors**

Name	Position	Nationality	Status	Direct Share Ownership		Indirect Share Ownership		Original Date of Appointment to the Board	Date of Appointment to the Current Board
				Pre-Offering	Post-Offering	Pre-Offering	Post-Offering		
H.E. Yasir O. Al-Rumayyan	Chairman	Saudi	Non-Independent	—	—	—	—	15/9/1437H (corresponding to 20/6/2016G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Ibrahim A. Al-Assaf	Deputy Chairman	Saudi	Non-Independent	—	—	—	—	15/9/1419H (corresponding to 2/1/1999G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Mohammed A. Al-Jadaan	Director	Saudi	Non-Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Mohammad M. Al-Tuwaijri	Director	Saudi	Non-Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
H.E. Nabeel M. Al-Amudi	Director	Saudi	Non-Independent	—	—	—	—	4/1/1441H (corresponding to 3/9/2019G)	4/1/1441H (corresponding to 3/9/2019G)
Sir Mark Moody-Stuart	Director	British	Independent	—	—	—	—	15/9/1428H (corresponding to 27/9/2007G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Andrew N. Liveris	Director	Australian	Independent	—	—	—	—	17/10/1439H (corresponding to 1/7/2018G)	17/10/1439H (corresponding to 1/7/2018G)
Mr. Andrew F. J. Gould	Director	British	Independent	—	—	—	—	15/9/1434H (corresponding to 23/7/2013G)	8/8/1439H (corresponding to 24/4/2018G)
Ms. Lynn Laverty Elsenhans	Director	American	Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Peter L. Cella	Director	American	Independent	—	—	—	—	8/8/1439H (corresponding to 24/4/2018G)	8/8/1439H (corresponding to 24/4/2018G)
Mr. Amin H. Nasser	Director, President and Chief Executive Officer	Saudi	Executive	—	—	—	—	17/11/1431H (corresponding to 25/10/2010G)	8/8/1439H (corresponding to 24/4/2018G)

Source: Company.

For the date of appointment of the members of the Board to any Board committee, see Section 6.6 (*Committees*).

The current Secretary is Mr. Nabeel A. Al Mansour (Senior Vice President, General Counsel and Secretary).

### 6.3.2 Responsibilities of the Board of Directors

The Company is supervised by a Board of Directors consisting of professional and highly experienced persons. The Board of Directors is vested with full powers to manage the business of the Company and supervise its affairs.

The responsibilities of the Board of Directors, the Chairman and the Secretary can be summarised as follows:

### 6.3.3 The Board of Directors

Subject to the authorities granted to the General Assembly, the Board shall have the broadest powers to manage the Company, and shall in particular, and without limitation, have the power to:

- appoint and remove the President of the Company and other executives;
- establish committees of the Board of Directors and appoint their members, including the audit, compensation and nomination committees and any other specialised committees, and issue the committees' charters that determine the committees' powers and procedures;

- establish the duties and set the compensation of the President and other executives;
- approve the Company's system of internal controls and procurement policies;
- authorise the Company's officers to sign on behalf of the Company;
- approve the acquisition or disposition by the Company of its ownership of, or interest in, companies, organisations, institutes, foundations, joint ventures, or other entities;
- approve the establishment of subsidiaries, branches, offices and agencies, and approve the participation of others in such establishments;
- take any acts deemed appropriate to promote the interests of companies it owns and direct and indirect subsidiaries (whether wholly or partially owned), including, but not limited to, making equity investments, providing loans and credit facilities, transferring assets of the Company to any such companies and guaranteeing such companies;
- guarantee or provide security for the principal and interest of any sukuk, bonds, debentures, notes, or other indebtedness issued, or obligations incurred, by the Company, or any entity that is a subsidiary of the Company or in which the Company has an interest or where such guarantee or security is otherwise in furtherance of the interests of the Company;
- contract for loans and finance leases, grant mortgages, issue sukuk, bonds, trust certificates or other debentures, and enter into any other financing instruments by the Company, whatsoever their terms;
- purchase and sell and mortgage over and invest the Company's movable and immovable assets, redeem mortgages, receive their value, and transfer the Company's title deeds;
- obtain loans and other credit facilities on behalf of the Company, whatsoever their terms, including loans from governmental financing funds, affiliates, export credit agencies, commercial banks, financing and credit companies or any other financing entity;
- approve the Company's financial position, financial statements and annual budget drawn up in accordance with the Bylaws;
- approve the Company's business plans, including its programmes for implementing crude oil production decisions of the State and its programmes to explore, excavate and develop new hydrocarbon reserves, and the associated programmes for capital and other investments; and
- present any matter for approval by the General Assemblies.

The Board of Directors delegates power to four committees which report to the Board of Directors, consisting of the Audit Committee, the Nomination Committee, the Compensation Committee and the Risk and HSE Committee. In addition, the Board of Directors has the power to form any number of committees it deems necessary for effective governance, oversight and operations of the Company or to delegate all or some of its authorities to any person or Board of Directors committee.

#### 6.3.4 *The Chairman*

The Chairman shall assume the following responsibilities:

- presiding over General Assemblies, meetings of sukuk or bond holders or holders of other debt securities, and Board of Directors' meetings;
- representing the Company before courts, arbitral tribunals and others including ministries and governmental entities, companies, courts, judicial and quasi-judicial committees, labour commissions of all types and levels, public prosecution, notaries, attestors licensed by the Ministry of Justice, and chambers of commerce and industry. The Chairman shall be entitled to plead, defend, initiate claims, enter into settlements and waivers, and shall have the right of exculpation, denial and affirmation, and the right to request oath, obtain judgements, request judgment revocation, appeal and seek reconsideration and execution of judgments;
- signing the articles of association and annexes of companies that the Company establishes or participates in, and sign contracts, loan agreements and other financial agreements, mortgages and leases, documents and deeds of sale and purchase of land and buildings; and the Chairman may also sell, purchase, deposit, withdraw, transfer, subscribe to, invest or trade in, mortgage or redeem mortgages over shares in companies, entities or funds or others, and accept dividends and surplus and ownership certificates thereof and amending them, within the limits of the resolutions issued by the Board;

- having any other power authorised to him by the Board of Directors; and
- delegating any of his stated powers to others.

### 6.3.5 *The Secretary of the Board*

The Secretary shall have the authorities set forth in a resolution of the Board of Directors.

### 6.4 **Service Contracts with Directors**

There are no service contracts entered into between the Directors and the Company.

### 6.5 **Biographies of the Directors**

The relevant experience, qualifications, current positions and certain other past positions held by each of the Directors are set out below:

#### 6.5.1 *H.E. Yasir O. Al-Rumayyan, Chairman*

H.E. Yasir O. Al-Rumayyan, 49, is the Chairman of the Board of Directors. H.E. Al-Rumayyan has served as a Director of the Company since 2016G. Currently, H.E. Al-Rumayyan serves as an Advisor to the General Secretariat of the Council of Ministers (and has served in this capacity since 2016G) and as Governor and Director of the Board of the PIF, a sovereign wealth fund (and has served in this capacity since 2015G). He also serves as Chairman of the Board of the Decision Support Center under the Royal Court, a governmental body (and has served in this capacity since 2016G) as well as a Director of the Board of the Saudi Industrial Development Fund, a governmental body focussed on funding industrial projects (and has served in this capacity since 2016G), the Board of Uber Technologies, Inc., a corporation operating in the transportation and delivery industry (and has served in this capacity since 2016G) and the Board of SoftBank Group Corp., a holding company engaged in technology services (and has served in this capacity since 2017G).

H.E. Al-Rumayyan also serves in the following capacities:

- Director of The Royal Commission for Makkah City and Holy Sites, a governmental body responsible for developments at and regulation of Makkah City and Holy Sites, since 2018G;
- Director of NEOM Company, a closed joint stock company which manages and develops real estate projects, since 2019G;
- Director of The Red Sea Development Company, a closed joint stock company which manages and develops real estate projects, since 2018G;
- Vice Chairman of Central Arriyadh Development Company, a closed joint stock company which manages and develops real estate projects, since 2018G;
- Director of AMAALA Company, a closed joint stock company which manages and develops real estate projects, since 2019G;
- Chairman of King Abdullah Financial District Development & Management Company a closed joint stock company, which manages and develops real estate projects, since 2018G;
- Director of Community Development Company, a closed joint stock company which manages and develops real estate projects, since 2018G;
- Chairman of Noon Investments Company, a closed joint stock company engaged in eCommerce, since 2017G;
- Director of Qiddiya Investment Company, a closed joint stock company which manages and develops real estate projects, since 2018G;
- Chairman of Sanabil Investments Company, a closed joint stock company investment manager, since 2017G;
- Chairman of Saudi Arabian Mining Company (Ma'aden), a closed joint stock company engaged in metals mining, since 2019G;
- Director of ARM Company, a holding company engaged in technology services, since 2018G; and
- Member of the Board of Governors of the Islamic Development Bank, an international financial institution which supports and promotes the economic and social progress of member states, since 2016G.

H.E. Al-Rumayyan has also held the following positions:

- Chief Executive Officer of Saudi Fransi Capital, a limited liability company operating in the investments sector, from 2011G to 2015G;
- Director of the Saudi Stock Exchange (Tadawul), a joint stock company functioning as the Saudi national stock exchange, in 2014G;
- Director of Corporate Finance and Issuance, CMA from 2008G to 2010G; and
- Head of International Brokerage for Saudi Hollandi Bank from 1994G to 2004G.

H.E. Al-Rumayyan earned a B.S. in Accounting from King Faisal University in 1993G and completed a General Management Program at Harvard Business School in 2007G.

#### **6.5.2 H.E. Ibrahim A. Al-Assaf, Deputy Chairman**

H.E. Dr. Ibrahim A. Al-Assaf, 70, has served as a Director of the Company since 1999G. H.E. Dr. Al-Assaf serves as the Minister of State of the Kingdom (and has served in that capacity since 2019G) to the present and a member of the Council of Ministers as well as a Director on the Board of the PIF, a sovereign wealth fund (and has served in this capacity since 2016G).

H.E. Dr. Al-Assaf has also served in the following capacities:

- Minister of Foreign Affairs of the Kingdom from 2018G to 2019G;
- Minister of State of the Kingdom from 2016G to 2018G;
- Minister of Finance of the Kingdom from 1996G to 2016G;
- Chairman of the Board of the PIF from 1996G to 2016G;
- Governor of the International Monetary Fund, an international organisation focussed on international monetary cooperation, from 1996G to 2016G;
- Governor of the Arab Monetary Fund, an Arab league institution operating in the financial sector, from 1996G to 2016G;
- Governor of the Islamic Development Bank, an international financial institution focussed on banking and financial services, from 1996G to 2016G; and
- Chairman of Sanabil Investments, a joint stock company operating in the investment sector, from 2009G to 2017G.

H.E. Dr. Al-Assaf earned a Ph.D. in Economics from Colorado State University in 1982G, a M.S. in Economics from the University of Denver in 1976G and a B.S. in Economics and Political Science from King Saud University in 1971G.

#### **6.5.3 H.E. Mohammed A. Al-Jadaan, Director**

H.E. Mohammed A. Al-Jadaan, 55, has served as a Director of the Company since 2018G. Currently, H.E. Al-Jadaan serves as the Minister of Finance of the Kingdom (and has served in that capacity since 2016G) and is a member of the Council of Ministers. He also serves as Governor of the Islamic Development Bank, an international financial institution focussed on banking and financial services (and has served in this capacity since 2016G).

H.E. Al-Jadaan currently serves in the following capacities:

- Director of the PIF, a sovereign wealth fund, since 2016G;
- Director of Military Industries Corporation, a state-owned enterprise in the Kingdom, since 2016G;
- Director of National Development Fund, a Saudi fund aimed at enhancing the performance of funds and development banks in the Kingdom, since 2017G;
- Director of General Authority for Military Industries, an authority aimed at regulating and developing the defence sector in the Kingdom, since 2017G;
- Member of the Board of Governors of the International Monetary Fund, an international organisation focussed on building international monetary cooperation, since 2016G;

- Member of the Board of Governors of the World Bank, a development bank focussed on providing loans to developing countries, since 2016G;
- Member of the Board of Governors of the Arab Fund for Economic and Social Development, an Arab regional financial institution focussed on financing economic and social development projects in Arab countries, since 2016G;
- Member of the Board of Governors of the Arab Monetary Fund, a regional financial institution which provides financial and technical assistance in the financial sector in Arab countries, since 2016G;
- Member of the Board of Governors of the Arab Bank for Economic Development in Africa, a specialised Arabic institution focussed on supporting development in non-Arab African countries, since 2016G;
- Member of the Board of Governors of the Arab Investment and Export Credit Guarantee Corporation, an Arab regional organisation focussed on providing guarantee services against commercial and non-commercial risks, since 2016G;
- Member of the Board of Governors of the Arab Authority for Agricultural Investment and Development, an Arab regional institution focussed on achieving food security in the Arab Nations, since 2016G;
- Member of the Board of Governors of the Asia Infrastructure Investment Bank, a multilateral development bank focussed on supporting infrastructure projects in the Asia-Pacific region, since 2016G;
- Director of the Saudi Authority for Data and Artificial Intelligence, since 2019G;
- Director of King Abdulaziz City for Science and Technology, since 2019G;
- Director of the Royal Commission for Riyadh City, since 2019G;
- Chairman of the Board of the Saudi Customs, since 2018G;
- Chairman of the Board of the General Authority of Zakat and Tax, since 2017G;
- Chairman of the Board of the Spending Efficiency Center, since 2018G;
- Chairman of the Board of the Non-Oil Revenue Center, since 2018G;
- Committee Chairman of the Financial Sector Development Program Committee, since 2017G;
- Committee Chairman of the Fiscal Balance Program Committee, since 2017G;
- Chairman of the General Authority of Government Real Estate, since 2018G;
- Director of the National Center for Performance Measurement “Aadaa”, since 2016G;
- Director of the National Information Center, since 2018G;
- Director of the National Program to Support the Management of Projects in Public Entities, since 2018G;
- Director of the Madinah Development Commission, since 2016G;
- Director of the Premium Residency Center, since 2019G;
- Chairman of the Privatisation Program Committee, since 2019G; and
- Chairman of the National Center for Privatization & PPP (NCP), since 2019G.

He has also served in the following capacities:

- Chairman of the CMA, a government financial regulatory authority, from 2015G to 2016G; and
- Co-founder and Managing Partner of Al-Jadaan & Partners Law Firm, a limited liability partnership law firm, from 1996G to 2015G.

H.E. Al-Jadaan earned a B.A. in Islamic Sharia, with a specialty in Islamic Economics from Imam Muhammad bin Saud Islamic University in 1986G and a Diploma in Legal Studies from the Institute of Public Administration, Riyadh in 1998G.

#### 6.5.4 ***H.E. Mohammad M. Al-Tuwaijri, Director***

H.E. Mohammad M. Al-Tuwaijri, 53, has served as a Director of the Company since 2018G. H.E. Al-Tuwaijri has served as the Minister of Economy and Planning of the Kingdom since 2017G, as a member of the Council of

Ministers since 2017G, as a member of the Council for Economic and Development Affairs since 2017G and serves as a member of the Finance Committee in the Royal Court. He has also served as Chairman of the Centre for the National Transformation Program since 2019G, National Project Management, Operation and Maintenance Organisation (Mashroat) since 2017G and the General Authority for Statistics since 2017G; as the Vice Chairman of the National Development Fund since 2017G; as a Director on the Board of the PIF since 2017G, and as the Secretary General of the National Center for Performance Measurement (ADDA).

H.E. Al-Tuwaijri currently serves in the following capacities:

- Member of the Board of Directors of the Saudi Authority for Data and Artificial Intelligence, since 2019G;
- Member of the Board of Directors of the Royal Authority for the City of Riyadh, since 2019G;
- Member of the Board of Directors of the Royal Authority for the City of Makkah and Sacred Sites, since 2018G;
- Chairman of the Board of Directors of the National Center for Strategic Development Studies, since 2016G;
- Member of the Board of Directors of the Saudi Center for International Strategic Partnerships, since 2018G;
- Member of the Board of Directors of the National Center for Privatization & PPP, since 2019G;
- Member of the Board of Directors of the National Information Center, since 2018G;
- Supervisor of the National Risk Unit at the Royal Court, since 2017G;
- Council Member of the National Risk Council at the Royal Court and the Executive Committee of such council, since 2018G;
- Member of the Board of Directors of Saudi Arabian Airlines, since 2017G;
- Chairman of the Standing Committee of the Council for Economic Affairs and Development;
- Chairman of the Investment Committee of the PIF Board, since 2019G;
- Head of the Saudi side of Saudi Committees (Spanish, Portuguese, Brunei, Japanese, Korean, Malaysian, Austrian);
- Chairman of the Supervisory Committee for the Kingdom's participation in Expo 2020 Dubai, since 2018G;
- Member of the Strategic Committee of the Council for Economic and Development Affairs, since 2018G;
- Member of the Supreme Committee for Hydrocarbons Affairs, since 2018G;
- Member of the National Committee for Digital Transformation, since 2018G;
- Member of the High Committee for Atomic Energy, since 2018G; and
- Member of the Supervisory Committee of the Kingdom's participation in the World Economic Forum (Davos) 2020, since 2019G.

H.E. Al-Tuwaijri has also served in the following capacities:

- Deputy Chairman Chief Executive Officer of HSBC Middle East, North Africa and Turkey Regional Head of Global Banking & Markets, MENA from 2010G to 2016G; and
- Chief Executive Officer of J.P. Morgan Saudi Arabia from 2007G to 2010G.

H.E. Al-Tuwaijri earned a B.A. from the King Faisal Air Academy in 1986G and an MBA from King Saud University in 1998G.

#### 6.5.5 *H.E. Nabeel M. Al-Amudi, Director*

H.E. Nabeel Mohamed Al-Amudi, 45, has served as a Director of the Company (and has served in that capacity since 2019G). H.E. Al-Amudi is a member of the Board of the Red Sea Company (and has served in that capacity since 2017G) and NEOM (and has served in that capacity since 2018G).

H.E. Al-Amudi has also served in the following capacities:

- Minister of Transport of the Kingdom and Chairman of the Board of Directors of the General Authority of Civil Aviation, Public Transport Authority, Saudi Ports Authority, Saudi Railways Organization and Saudi Railways Company from 2017G to 2019G;

- Member of the Council of Economic and Development Affairs from 2017G to 2019G;
- Member of the Board of Directors of the Saudi Center for the Strategic International Partnerships during 2019G;
- President of Saudi Ports Authority from 2015G to 2017G;
- Member of the Board of Directors for Hapag Lloyd AG in 2017G;
- Chairman of the Board of Directors of the United Arab Shipping Company until its merger with Hapag Lloyd AG, from 2015G to 2017G;
- Chairman of the Board of Directors of the Saudi Electronic Info Exchange Company, Tabadul from 2016G to 2017G;
- President of ASC from 2013G to 2015G; and
- President of Saudi Refining Inc. from 2012G to 2013G.

Previously, H.E. Al-Amudi was an employee of Saudi Aramco, joining in 1995G, during which he held a series of positions progressing through various areas of the Company.

H.E. Al-Amudi earned a J.D. from Harvard Law School in 2001G and a B.S. in Chemical Engineering from Stanford University in 1995G. H.E. Al-Amudi is a 2009G graduate of Stanford's Graduate School of Business Executive Program and is a member of the New York State Bar Association. He was elected as a Young Global Leader by the World Economic Forum in 2014G.

#### 6.5.6 *Sir Mark Moody-Stuart, Director*

Sir Mark Moody-Stuart, 79, has served as an independent Director of the Company since 2007G. Currently, Sir Mark serves as Chairman of the Global Compact Foundation, a non-profit corporation focussed on providing support to the UN Global Compact activities (and has served in this capacity since 2006G), and of Zamyn, a private company focussed on the operation of arts facilities, since 2016G. He also serves as an Advisory Board Member of Envision Energy Ltd., a private limited company focussed on renewable energy and software (and has served in this capacity since 2012G).

Sir Mark currently serves in the following capacities:

- Member of the Board of St. George's House Windsor, a non-profit entity, focussed on providing consultations, from 2011G; and
- Council Member of the Integrated Reporting Council, a non-profit entity, focussed on corporate reporting systems, since 2010G.

Sir Mark has also served in the following capacities:

- Chairman of the Innovative Vector Control Consortium, a non-profit partnership focussed on health solutions, from 2008G to 2018G;
- Vice Chairman of the UN Global Compact, a UN initiative focussed on sustainable, socially responsible policies, from 2006G to 2018G;
- Director of Accenture Plc, a public limited company focussed on management consulting, technology and outsourcing services, from 2001G to 2015G;
- Chairman of Hermes Equity Ownership Services, a private limited company focussed on investments, from 2007G to 2016G;
- Chairman of Anglo American from 2002G to 2009G; and
- Chairman of Royal Dutch Shell from 1998G to 2001G.

Sir Mark earned a B.A. in Natural Sciences from Cambridge University in 1963G and a Ph.D. in Geology from Cambridge University in 1966G. He also received an Honorary Doctorate in Business Administration from Robert Gordon University, Aberdeen in 2000G, an Honorary Doctorate of Law from the University of Aberdeen in 2004G, and an Honorary Doctorate of Science from Royal Holloway University of London in 2007G.

#### **6.5.7 Mr. Andrew N. Liveris, Director**

Mr. Andrew N. Liveris, 65, has served as an independent Director of the Company since 2018G. Currently, Mr. Liveris serves as a Director on the Boards of International Business Machines Corporation (IBM), a global multinational information technology company focussed on manufacturing and developing computers and software (and has served in this capacity since 2010G), Worley Parsons, an Australian engineering company focussed on providing project delivery and consulting services to the resources and energy sectors (and has served in this capacity since 2018G), and Novonix, a limited company focussed on developing and supplying materials, equipment and services for the global lithium-ion battery industry (and has served in this capacity since 2018G) and the Board of Trustees of KAUST, a private research university (and has served in this capacity since 2017G). He also serves on the Board of The Nature Conservancy, a charitable environmental organisation (and has served in this capacity since 2018G), and as Senior Advisor to Teneo, a global corporate advisory firm (and has served in this capacity since 2018G) and the PIF, a sovereign wealth fund (and has served in this capacity since 2018G) and as a member of the Advisory Board of Sumitomo Mitsui Banking Corporation (SMBC), a Japanese multinational banking and financial services company (and has served in this capacity since 2018G) and Neom, an initiative driven by Saudi Vision 2030 to build a cross-border city (and has served in this capacity since 2018G). Mr. Liveris served as the Executive Chairman on the Board of DowDuPont Inc., a holding company focussed on chemical, agriculture and specialty products, from 2017G to 2018G and as the Chairman, President and CEO of The Dow Chemical Company, a multinational chemical corporation focussed on manufacturing plastics, chemicals and agriculture products, from 2006G to 2018G. Mr. Liveris also served as Chair of the American Manufacturing Council under U.S. President Donald J. Trump in 2017G, as Co-Chair of the Advanced Manufacturing Partnership Steering Committee and a member of the President's Export Council under U.S. President Barack H. Obama from 2011G to 2016G and as a member of the Australian government's Industry Growth Centres Advisory Committee.

Mr. Liveris earned a B.S. in Chemical Engineering with first-class honours from the University of Queensland in 1976G and was awarded an honorary doctorate in Engineering from Michigan State University in 2015G.

#### **6.5.8 Mr. Andrew F. J. Gould, Director**

Mr. Andrew F. J. Gould, 72, has served as an independent Director of the Company since 2013G. Currently, Mr. Gould is the Chairman of the Board of the International Advisory Board of Boston Consulting Group Centre for Energy Impact, a global advisory firm (and has served in this capacity since 2016G) and as a General Partner of CSL Capital Management LP, a limited liability company specialising in oil field services (and has served in this capacity since 2018G). He also serves as a Director on the Boards of BJ Services, Inc., a limited liability company specialising in oil field services (and has served in this capacity since 2017G) and of Lambert Energy, a private limited company focussed on financial advisory services in the energy sector (and has served in this capacity since 2018G), a member of the Advisory Board at L1 Energy Fund (and has served in this capacity since 2013G) and a member of the Board of Trustees at KAUST, a private research university (and has served in this capacity since 2007G). Mr. Gould served as the Chairman and CEO of Schlumberger Limited from 2003G to 2011G and from 2012G to 2016G, he served as non-executive Chairman and non-executive Director of BG Group plc, a public limited company in the oil and gas sector, from 2011G to 2016G.

Mr. Gould obtained a B.A. in Economic History from Cardiff University in 1969G and an Honorary Doctorate in Engineering from Colorado School of Mines in 2004G. Mr. Gould has also been an Honorary Fellow of Cardiff University since 2005G. He qualified as a Chartered Accountant with Ernst & Young and The Institute of Chartered Accountants in England and Wales in 1972G.

#### **6.5.9 Ms. Lynn Laverty Elsenhans, Director**

Ms. Lynn Laverty Elsenhans, 63, has served as an independent Director of the Company since 2018G. Currently, Ms. Elsenhans serves as a Director on the Board of Baker Hughes Company and GlaxoSmithKline PLC.

Ms. Elsenhans has also served in the following capacities:

- Director of Baker Hughes, a GE Company specialising in oil field services, from 2017G to September 2019G;
- Director of Baker Hughes, Inc., a company focussed on providing technology and services to oil and gas companies, from 2012G to 2017G;
- Director of Flowserve Corporation, a public company focussed on supplying industrial environmental machinery, from 2014G to 2017G;



- Director of International Paper Company from 2007G to 2012G;
- President and CEO of Sunoco, Inc. from 2008G to 2012G, becoming Chairwoman in 2009G; and
- Chairwoman of Sunoco Logistics Partners from 2008G to 2012G, becoming CEO in 2010G.

Ms. Elsenhans earned a B.A. in Applied Mathematics from Rice University in 1978G and an MBA from Harvard University in 1980G.

#### 6.5.10 *Mr. Peter L. Cella, Director*

Mr. Peter L. Cella, 61, has served as an independent Director of the Company since 2018G. Currently, Mr. Cella serves as a Director on the Boards of Frontdoor, a company focussed on providing home services (and has served in this capacity since 2018G), Inter Pipeline, a limited partnership company focussed on petroleum, transportation and infrastructure (and has served in this capacity since 2018G) and ClockSpringNRI, a company focussed on manufacturing permanent and temporary composite pipe repair solutions (and has served in this capacity since 2019G), and a member of the Strategic Advisory Council for Arcadis NV (and has served in this capacity since 2018G). From 2017G to 2018G, Mr. Cella served as a Director on the Board of ServiceMaster Global Holdings, a company focussed on providing commercial and residential services, from 2017G to 2018G. From 2011G to 2017G, he served as President and CEO and as a Director on the Board of Chevron Phillips Chemical Company, a limited liability company focussed on petrochemicals, from 2011G to 2017G. He also served as a Director on the Board of the American Chemistry Council, an industry trade association for American chemical companies, from 2011G to 2017G and Junior Achievement of Southeast Texas, an organisation focussed on inspiring and preparing young people to succeed in the global economy from 2011G to 2017G. From 2006G to 2011G, he served as Senior Vice President for North America Petrochemicals for BASF Corporation.

Mr. Cella earned a B.S. degree in Finance from the University of Illinois at Urbana-Champaign in 1979G and an MBA from Northwestern University in 1981G.

#### 6.5.11 *Mr. Amin H. Nasser, Director, President and Chief Executive Officer*

Mr. Amin H. Nasser, 60, has served as the President and CEO of the Company since 2015G. Mr. Nasser has been a Director since 2010G. Currently, Mr. Nasser is a member of the International Advisory Board of KFUPM, a public university (and has served in this capacity since 2016G), the Board of Trustees of KAUST, a private research university (and has served in this capacity since 2016G), the World Economic Forum's International Business Council, an international organisation focussed on public-private cooperation (and has served in this capacity since 2016G), the International Advisory Board of the Society of Petroleum Engineers, a non-profit organisation focussed on the oil and gas sector (and has served in this capacity since 2008G), the Presidential CEO Advisory Board at Massachusetts Institute of Technology, a private research university (and has served in this capacity since 2016G), the JP Morgan International Council, an advisory board providing advice to the bank's leadership team on global trends (and has served in this capacity since 2016G) and is a director of the Dhahran Techno Valley Company, a wholly-owned subsidiary of KFUPM (and has served in this capacity since 2010G). Prior to serving as President and CEO, Mr. Nasser served in a number of leadership positions at the Company, including as Senior Vice President for Upstream from 2007G to 2015G and VP of Petroleum Engineering and Development from 2006G to 2007G.

Mr. Nasser earned a B.S. in Petroleum Engineering from KFUPM in 1982G. He also completed the Senior Executive Program at Columbia University in 2002G, the Saudi Aramco Global Business Programme in 2000G and the Saudi Aramco Management Development Seminar in Washington, D.C. in 1999G.

## 6.6 **Committees**

To optimise the management of the Company, the following committees of the Board of Directors were established: (i) the Audit Committee; (ii) the Nomination Committee; (iii) the Compensation Committee; and (iv) the Risk and HSE Committee. Each Committee is required to have clear rules identifying its role, its powers and its responsibilities and minutes must be prepared for each meeting of each Committee.

The following is a summary of the structure, responsibilities and current members of each Committee:

### 6.6.1 *Audit Committee*

The primary role of the Audit Committee is to monitor the Company's affairs and assist the Board of Directors and its Directors with oversight of the financial reporting and disclosure process, including oversight of: (i) the

integrity, effectiveness and accuracy of the Company's consolidated financial statements and reports, and the performance, soundness and effectiveness of the Company's internal controls, audit, financial reporting and financial risk management; (ii) the qualifications and performance of the Company's internal auditor; (iii) the qualifications, independence and performance of the Company's independent external auditor; and (iv) the Company's compliance with legal and regulatory requirements.

#### 6.6.1.1 *Responsibilities of the Audit Committee*

In addition to the above responsibilities, the Audit Committee further shall:

##### (a) **Financial Reporting, Financial Risk Management and Internal Controls**

- review and discuss with the Company management and the external auditor: (1) the Company's annual audited consolidated financial statements and interim consolidated financial statements, including related notes and disclosures regarding the Company's financial performance; (2) the scope and results of the audit performed by the external auditor; and (3) matters required to be discussed with the external auditor under the relevant auditing standards;
- express an opinion on and make recommendations to the Board of Directors regarding the Company's interim and annual consolidated financial statements, including all related disclosures in the consolidated financial statements, prior to their presentation to the Board, to ensure their integrity, fairness, and transparency;
- at the request of the Board, express a technical opinion with respect to the fairness, balance and comprehensibility of the annual report of the Board of Directors and the Company's consolidated financial statements, and whether they include the information necessary to enable shareholders and investors to assess the Company's financial position, performance, business model and strategy;
- review any significant or unusual issues or matters included in the Company's consolidated financial statements and reports, and review any matters raised by the chief financial officer of the Company, the chief compliance officer of the Company, the internal auditor, or the external auditor;
- review the Company's internal and financial control systems and risk management systems;
- examine the significant accounting estimates contained in the Company's consolidated financial statements and reports;
- review the accounting policies in force and advise the Board of Directors of its opinion and any recommendations regarding the same;
- review the Company's compliance with applicable accounting standards;
- review, at least annually, with the Company's management, the internal auditor, and the external auditor the adequacy and effectiveness of the Company's internal controls, financial and financial risk management systems, including any significant deficiencies or material weaknesses in the design or operation of, and any material changes in, the Company's internal controls over financial reporting and financial risk management systems and any special audit steps adopted in light of any material control deficiencies, and any fraud involving management or other employees with a significant role in such internal controls, and review and discuss with the Company management and the external auditor disclosure relating to the Company's internal controls;
- review and examine those risks threatening the continuity of the Company and its business, including the identification of current and emerging risks; and
- on behalf of the Board of Directors and in consultation with the Risk and HSE Committee, ensure that a robust assessment of the principal financial risks facing the Company has been undertaken (including those risks that would threaten the Company's business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks.

##### (b) **Internal Audit**

- monitor and oversee the internal auditor and the Company's internal audit function to: (1) ensure they have full and unrestricted access to necessary resources; (2) ensure their effectiveness in performing the tasks and duties assigned to them (in accordance with appropriate professional standards); and (3) assess the internal auditor's functions, including its purpose, authority, organisation, responsibilities, budget and staffing;

- review internal audit plans and reports, and monitor management’s responsiveness to the findings and recommendations of the internal auditor;
- ensure the annual internal audit plan is aligned with the key risks of the business;
- review the independent, third party review of internal audit effectiveness and processes; and
- make recommendations to the Board of Directors regarding the appointment, replacement and compensation of the internal auditor.

**(c) External Audit**

- make recommendations to the Board, to be put to shareholders for approval at General Assemblies, regarding the appointment, re-appointment and dismissal of the external auditor;
- review and approve the external auditor’s scope for the annual audit, the engagement letter issued at the start of each audit and related fees;
- monitor the execution and results of the audit, any major issues that arose during the audit, how risks to audit quality were addressed, errors identified during the audit and the effectiveness of the audit;
- review and assess the Company management’s response to audit findings and recommendations and seek to resolve any disagreements between management and the external auditor;
- respond to questions from the external auditor;
- at least annually, review and verify the independence of the external auditor and assess the performance of the external auditor within the context of the standards required by applicable law, regulation and listing standards; and
- establish and monitor the implementation of policies for the pre-approval of audit and non-audit services.

**(d) Compliance**

- monitor and verify the Company’s compliance with applicable laws, regulations, and listing standards;
- oversee the corporate compliance framework of the Company;
- meet regularly with the chief compliance officer of the Company to receive information sufficient to allow oversight of the Company’s compliance programme;
- review with the Company management the reports and results of investigations of any competent supervisory or regulatory authority, and ensure that the Company has undertaken the necessary actions in relation to the same;
- oversee the investigation of any reports or complaints of potential non-compliance with applicable laws, regulations, policies and instructions; and
- review the contracts and transactions to be entered into by the Company with any related party, and make recommendations to the Board of Directors in relation to the same.

**(e) Complaints, Whistleblowing and Fraud**

- review of the Company’s procedures for: (1) the receipt, retention and treatment of complaints regarding accounting, internal controls, auditing matters and any errors or inaccuracies in the Company’s financial reports; and (2) the confidential, anonymous submission of concerns regarding compliance with applicable laws, regulations and Company policies through a hotline or such other reasonable mechanisms as required;
- ensure that the aforementioned arrangements allow proportionate and independent investigation of such matters and appropriate follow up action and address potential issues regarding retaliation;
- review annually the Company’s procedures for identifying, preventing and detecting fraud; and
- review the Company’s systems and controls for ethical behaviour and the prevention of bribery and receive reports on non-compliance.

**6.6.1.2** *Composition of the Audit Committee*

The Audit Committee comprises the following members as at the date of this Prospectus.

**Table 28: Audit Committee members**

Name	Role	Appointment Date <sup>(1)</sup>	Independent
Mr. Andrew F. J. Gould	Chair	23/8/1439H (corresponding to 9/5/2018G)	Yes
H.E. Mohammed A. Al-Jadaan	Member	23/8/1439H (corresponding to 9/5/2018G)	No
Ms. Lynn Laverty Elsenhans	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes
Mr. Peter L. Cella	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes

Source: Company.

(1) Members are appointed to the Audit Committee for a period of no more than three years.

Please refer to Section 6.5 (*Biographies of the Directors*) for further details regarding the experience and qualifications of the Audit Committee members.

### 6.6.2 *Nomination Committee*

The primary role of the Nomination Committee is to lead the process of nominating, appointing and evaluating members of the Board of Directors of the Company and to ensure the effectiveness of the Board of Directors and the Directors. The Nomination Committee also evaluates and makes recommendations with respect to the structure of the Board of Directors and composition of the committees of the Board of Directors. Further, the Nomination Committee evaluates and recommends to the Board of Directors the appointments of individuals (other than Directors) as officers of the Company, including those proposed to hold the title of vice president or higher or that are otherwise authorised by virtue of such appointment to bind or act on behalf of the Company. The Nomination Committee also proposes and makes recommendations to the Board of Directors with respect to the Company's relevant corporate governance practices and procedures.

#### 6.6.2.1 *Responsibilities of the Nomination Committee*

In addition to the above responsibilities, the Nomination Committee shall:

##### (a) **Board Nominations**

- make recommendations to the Board of Directors for nominations of Directors and assist the State as a shareholder in the nomination and approval process for Directors nominated by the State as a shareholder in accordance with the Bylaws, and the presentation of the same for shareholder vote at General Assemblies;
- prepare and recommend to the Board of Directors policies and criteria, including job specifications, in relation to the appointment of executive, non-executive and independent Directors, including criteria related to specific Board committee membership;
- ensure that all necessary and appropriate inquiries are made into the backgrounds and qualifications of Board of Directors candidates before submitting them to the Board of Directors for nomination;
- in identifying suitable candidates for the Board:
  - consider candidates from a wide range of backgrounds;
  - consider any nominations of Director candidates properly made by shareholders;
  - consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position and with due regard for the benefits of diversity on the Board of Directors; and
  - take into account that no candidate shall be a person convicted of a crime involving moral turpitude or dishonesty.

- verify on an annual basis the independence of each independent Director in accordance with applicable laws, rules, regulations or stock exchange listing standards, and the absence of any conflict of interest in case a Director also serves as a member of the board of directors of another company;
- ensure that on appointment to the Board of Directors, non-executive Directors receive a formal letter of appointment clearly setting out the Company's expectation of the time commitment, committee service and involvement outside Board meetings for them;
- periodically review and make recommendations to the Board of Directors concerning the succession plans for Directors, taking into account the challenges and opportunities facing the Company, as well as the skills and expertise required in the future on the Board;
- develop procedures for filling vacancies in the Board of Directors and on the Board of Directors' committees, and make recommendations to the Board of Directors regarding the selection and approval of candidates to fill such vacancies; and
- make recommendations to the Board concerning:
  - membership of the Audit Committee, Risk and HSE Committee and Compensation Committee, in consultation with their respective chairmen; and
  - any area within its remit where action or improvement is needed.

**(b) Re-appointments and Re-election of Directors**

- make recommendations to the Board of Directors regarding:
  - the re-appointment or re-election by shareholders of any non-executive Director at the conclusion of his or her specified term of office, having due regard to their performance and ability to contribute to the Board of Directors in light of the balance of knowledge, skills and experience required; and
  - any matters relating to the continuation of a Director's service on the Board of Directors at any time, including the suspension or termination of service of an executive Director as employee of the Company, subject to the provisions of law and their service contract, if any.

**(c) Executives**

- periodically review and make recommendations to the Board of Directors concerning the succession plans for persons holding the title of senior vice president or higher, and provide job specifications for such executives, taking into account the challenges and opportunities facing the Company, and making a description of the skills and expertise required in the future from such executives;
- make recommendations to the Board of Directors regarding any individuals proposed for appointment as officers; and
- evaluate the Company's structure of Senior Management and make recommendations with respect to potential changes.

**(d) Review and Assessment**

- annually, or before any nomination to the Board of Directors is made, evaluate the structure, size, composition, balance of skills, knowledge, qualifications, credentials, strengths and weaknesses and experience on the Board of Directors and, in the light of this evaluation, prepare a description of the skills, knowledge, qualifications, credentials and experience that would be advisable for a particular nomination;
- make appropriate recommendations to the Board of Directors that are compatible with the interests of the Company;
- develop and oversee a full, formal and tailored induction for new Directors and a continuing education programme for current Directors; periodically review these programmes and update such programmes as necessary;
- continuously review the Company's leadership needs with a view to ensuring effective competition in the marketplace;
- keep current and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates; and

- oversee and review the results of the Board of Directors' performance evaluation process and review the annual Director self-evaluations and non-executive Director performance evaluations to ensure effectiveness and commitment.

(e) **Corporate Governance**

- oversee, review and approve changes to the Company's corporate governance practices and procedures, including identifying best practices and reviewing and recommending to the Board of Directors for approval any changes to the documents, policies and procedures in the Company's corporate governance framework;
- develop and recommend to the Board of Directors a Corporate Governance Manual and codes of professional conduct and ethics representing the Company's values; review these principles regularly and recommend any changes to the Board of Directors; and
- advise the Board of Directors regularly with respect to significant developments in corporate governance practices.

(f) **Miscellaneous**

- Make recommendations to the Board of Directors concerning:
  - the statement required to be included in a separate section of the annual report of the Company describing the work and activities of the Nomination Committee;
  - the statement required to be included in the annual report of the Company identifying the Nomination Committee Members and Committee Chair, number of Committee meetings held and attendance of each Director over the course of the year; and
  - the statement required to be included in the annual report describing how annual performance evaluation of the Board of Directors, its committees and the Directors has been conducted and if an external facilitator has been used, they should be identified and a statement made as to whether they have any other connection to the Company.

6.6.2.2 *Composition of the Nomination Committee*

The Nomination Committee is comprised of the following members as at the date of this Prospectus.

**Table 29: Nomination Committee members**

Name	Role	Appointment Date <sup>(1)</sup>	Independent
Mr. Andrew N. Liveris	Chair <sup>(2)</sup>	23/8/1439H (corresponding to 9/5/2018G) <sup>(3)</sup>	Yes
H.E. Ibrahim A. Al-Assaf	Member	23/8/1439H (corresponding to 9/5/2018G)	No
H.E. Mohammad M. Al-Tuwaijri	Member	23/8/1439H (corresponding to 9/5/2018G)	No
Sir Mark Moody-Stuart	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes

Source: Company.

(1) Members are appointed to the Nomination Committee for a period of no more than three years.

(2) Appointment of Nomination Committee Chairman became effective on 7/7/1440H (corresponding to 14/3/2019G).

(3) Designated a member on this date and effective on 14/10/1439H (corresponding to 1/7/2018G).

Please refer to Section 6.5 (*Biographies of the Directors*) for further details regarding the experience and qualifications of the Nomination Committee members.

### 6.6.3 *Compensation Committee*

The primary role of the Compensation Committee is to (i) oversee the Company's policy on compensation; (ii) develop individual compensation plans for Directors and executives of similar standing or performing duties equivalent to those of a senior vice president or higher; and (iii) review and design the annual compensation plans of Company management holding the title of vice president or undertaking substantially similar duties.

#### 6.6.3.1 *Responsibilities of the Compensation Committee*

In addition to the above responsibilities, the Compensation Committee further shall:

##### (a) **Overall Compensation**

- prepare and ensure implementation of the Compensation Policy;
- periodically review the Compensation Policy and ensure it is effective at promoting the long-term success of the Company and meets all applicable requirements stemming from law, regulation, or stock exchange standards;
- review the design of and approve the individual compensation plans for the Directors and Senior Executives, including, where appropriate, pension rights, end-of-service benefits, and any bonuses, incentive payments, share options or other share awards;
- review and design the annual compensation plans of executives and such other employees of the Company as the Compensation Committee may determine from time to time by resolution of the Compensation Committee;
- approve the funding of Director and senior executive compensation within the budgets approved by the Board;
- make recommendations to the Board of Directors on the annual company-wide compensation plan and associated budget;
- develop and approve an appropriate performance framework for compensation plans (including for variable pay), set performance targets for the compensation of the chief executive officer of the Company and other Senior Executives, and determine overall performance of the Company for compensation purposes;
- ensure that performance-related compensation elements are transparent, represent a stretch, are risk-aligned and rigorously applied, and are designed to promote the long-term success of the Company;
- review any major changes in employee benefit plans throughout the Company and the Company group, which shall include all entities controlled directly or indirectly by the Company;
- review and take notice annually of compensation trends and employment conditions across the Company group; and
- obtain reliable, up-to-date information about compensation in peer companies to evaluate the Company's practices relative to peers.

##### (b) **Contracts of Employment**

- review and approve any compensation or employment agreements with Directors and Senior Executives; and, in the case of new appointments, do so in coordination with the Nomination Committee of the Board;
- consider and (if appropriate) approve any contract of employment for any executive that requires more than 12 months' notice to terminate; and
- consider and (if appropriate) approve any new contract of employment for such other employees of the Company as the Compensation Committee may determine from time to time by resolution of the Compensation Committee.

##### (c) **Early Termination**

- review the Company's policy on the terms and any compensation for early termination of Directors or executives, with the goal of ensuring fairness to the individual and the Company, without rewarding failure.

(d) **Pension Arrangements**

- evaluate and determine the policy for and scope of pension arrangements or end-of-service benefits for Directors and Senior Executives, including for Directors and Senior Executives close to retirement; and
- review and take notice of long-term liabilities associated with pension arrangements and end-of-service benefits for Company employees.

(e) **Claims for Expenses**

- oversee the framework for authorising claims for expenses of the Board.

(f) **Reporting and Disclosure**

- prepare any disclosures relating to compensation required by law, regulation, or stock exchange rules and any material deviations between compensation paid and authorised by the Compensation Policy.

(g) **Miscellaneous**

- consider any area within its remit where action or improvement is needed and reporting thereon to the Board.

6.6.3.2 *Composition of the Compensation Committee*

The Compensation Committee is comprised of the following members as at the date of this Prospectus.

**Table 30: Compensation Committee members**

Name	Role	Appointment Date <sup>(1)</sup>	Independent
Sir Mark Moody-Stuart	Chair	23/8/1439H (corresponding to 9/5/2018G)	Yes
Mr. Andrew F. J. Gould	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes
H.E. Mohammed A. Al-Jadaan	Member	23/8/1439H (corresponding to 9/5/2018G)	No
H.E. Yasir O. Al-Rumayyan	Member	23/8/1439H (corresponding to 9/5/2018G)	No
Mr. Andrew N. Liveris	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes

Source: Company.

(1) Members are appointed to the Compensation Committee for a period of no more than three years.

Please refer to Section 6.5 (*Biographies of the Directors*) for further details regarding the experience and qualifications of the Compensation Committee members.

6.6.4 **Risk and HSE Committee**

The primary role of the Risk and HSE Committee is to monitor the Company's overall management of risk and its activities relating to health, safety and the environment and to assist the Board of Directors with: (i) leadership, direction, and oversight with respect to the Company's risk appetite, risk tolerance, risk framework and risk strategy; (ii) governance and management of strategic and operational risks and sustainability; and (iii) assisting the Board and the Audit Committee, to foster a culture within the Company that emphasises and demonstrates the benefits of risk management.



#### 6.6.4.1 Responsibilities of the Risk and HSE Committee

In addition to the above, the responsibilities of the Risk and HSE Committee further shall:

- review implementation of strategies and policies for operational and strategic risk management, and the adequacy and effectiveness of the Company's enterprise risk management framework and major changes thereto;
- review the Company's risk appetite and exposure limits and monitor the Company's compliance with risk exposure limits;
- review the Company's operational and strategic risks, and the risk and control frameworks established to manage them;
- report on major strategic risk exposures and recommend steps to manage these risks to the Board;
- review the effectiveness of the Company's policies, programmes and practices with respect to safety, health, environment, social, and community relations issues, including compliance with applicable laws and regulations and the results of internal compliance reviews and any independent audits regarding these issues, and make such recommendations to the Board of Directors with respect thereto as may be advisable;
- review summary reports on fatalities and other serious health, safety and environmental incidents within the Company;
- review the Company's processes and preparedness for crisis management, disaster recovery and business continuity;
- review the Company's insurance programmes and policies;
- review the composition, organisational position and structure of risk management functions, and ensure sufficient independence of risk management functions from operational, strategic or other areas that may pose risk to the Company;
- evaluate and oversee the quality and integrity of external reporting concerning risks and their management, including financial, health, safety, environmental, social and community relations issues; and
- coordinate periodically with the Audit Committee in order to ensure that material risks that may be within the responsibility of both committees are appropriately addressed by at least one of such committees.

#### 6.6.4.2 Composition of the Risk and HSE Committee

The Risk and HSE Committee is comprised of the following members as at the date of this Prospectus.

**Table 31: Risk and HSE Committee members**

Name	Role	Appointment Date <sup>(1)</sup>	Independent
Mr. Peter L. Cella	Chair	23/8/1439H (corresponding to 9/5/2018G)	Yes
H.E. Mohammad M. Al-Tuwaijri	Member	23/8/1439H (corresponding to 9/5/2018G)	No
Ms. Lynn Laverty Elsenhans	Member	23/8/1439H (corresponding to 9/5/2018G)	Yes
Mr. Amin H. Nasser	Member	23/8/1439H (corresponding to 9/5/2018G)	No

Source: Company.

(1) Members are appointed to the Risk and HSE Committee for a period of no more than three years.

Please refer to Section 6.5 (*Biographies of the Directors*) for further details regarding the experience and qualifications of the Risk and HSE Committee members.

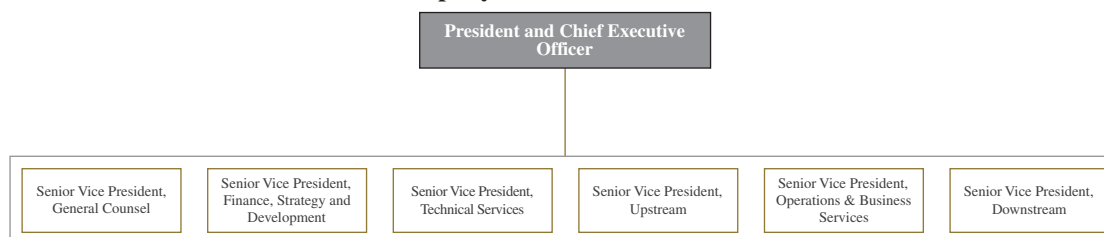
## 6.7 Senior Management

### 6.7.1 Overview of Senior Management

The Senior Management of the Company is comprised of qualified and experienced members with necessary knowledge and expertise to run the Company's business in line with the objectives and directives of the Board of Directors and the Shareholders. As required by Saudi law, the Company enters into employment agreements with its Senior Management when they are initially employed by the Company. Since the Company employs thousands of employees, it generally does not update its employment contracts, even if members of Senior Management change roles within the Company as is customary in the Kingdom. The Company has been successful in retaining its Senior Executives, developing qualified employees and promoting them to senior positions in the Company.

The following chart sets forth the Senior Executives as at the date of this Prospectus.

#### Exhibit 29: Senior Executives of the Company



Source: Company.

**Table 32: Details of Senior Executives**

Name	Position	Date of Appointment	Nationality	No. of Shares held Pre-Offering	No. of Shares held Post-Offering
Mr. Amin H. Nasser	Director, President and Chief Executive Officer	4/12/1436H (corresponding to 17 September 2015G)	Saudi	—	—
Mr. Nabeel A. Al Mansour	Senior Vice President, General Counsel and Secretary	24/7/1437H (corresponding to 1 May 2016G)	Saudi	—	—
Mr. Khalid Al-Dabbagh	Senior Vice President, Finance, Strategy and Development	21/12/1439H (corresponding to 1 September 2018G)	Saudi	—	—
Mr. Ahmad A. Al-Sa'adi	Senior Vice President, Technical Services	21/3/1437H (corresponding to 1 January 2016G)	Saudi	—	—
Mr. Mohammed Y. Al Qahtani	Senior Vice President, Upstream	21/3/1437H (corresponding to 1 January 2016G)	Saudi	—	—
Mr. Muhammad M. Al-Saggaf	Senior Vice President, Operations & Business Services	21/3/1437H (corresponding to 1 January 2016G)	Saudi	—	—
Mr. Abdulaziz M. Al-Judaimi	Senior Vice President, Downstream	5/8/1438H (corresponding to 1 May 2017G)	Saudi	—	—

Source: Company.

### 6.7.2 Biographies of Senior Executives

The relevant experience, qualifications, current positions and certain other past positions held by each Senior Executive are set out below:

#### 6.7.2.1 Mr. Amin H. Nasser

See Section 6.5.11 (*Mr. Amin H. Nasser, Director, President and Chief Executive Officer*) for further details regarding experience, qualifications and the current and previous positions of Amin H. Nasser.

#### 6.7.2.2 Mr. Nabeel A. Al Mansour, Senior Vice President General Counsel and Secretary

Mr. Nabeel A. Al Mansour, 52, has served as Senior Vice President, General Counsel and Secretary since 2016G. Currently, he serves as a member of the Board of the Saudi Centre for Commercial Arbitration.

Mr. Al Mansour also has served in the following capacities:

- Deputy General Counsel from 2015G to 2016G;
- Executive Director and Vice President of Procurement and Supply Chain Management from 2014G to 2015G; and
- Associate General Counsel from 2011G to 2014G.

Mr. Al Mansour earned a J.D. from Oklahoma City University in 1999G and a B.S. in Systems Engineering from KFUPM in 1990G. In addition, he has completed a number of executive leadership programmes, including the General Management Program at Harvard Business School in 2008G.

#### 6.7.2.3 *Mr. Khalid Al-Dabbagh, Senior Vice President, Finance, Strategy and Development*

Mr. Khalid Al-Dabbagh, 58, has served as Senior Vice President, Finance, Strategy and Development since 2018G. Mr. Al-Dabbagh represents the Company on the Board of Governors of the GCC Board of Directors Institute.

Mr. Al-Dabbagh also has served in the following capacities:

- Financial Controller from 2012G to 2018G;
- Treasurer from 2010G to 2012G; and
- Director of Joint Venture Development from 2006G to 2008G.

Mr. Al-Dabbagh earned a bachelor's degree in industrial engineering from the University of Toledo in 1985G. In addition, he has completed a number of executive leadership programmes, including the Senior Executive Programme at London Business School.

#### 6.7.2.4 *Mr. Ahmad A. Al Sa'adi, Senior Vice President, Technical Services*

Mr. Ahmad A. Al Sa'adi, 60, has served as Senior Vice President of Technical Services since 2016G. In this role, Mr. Al Sa'adi leads the Company's technical services with respect to engineering, IT, materials supply and community, infrastructure and public projects.

Mr. Al Sa'adi also has served in the following capacities:

- Vice President of Technical Services from 2015G to 2016G; and
- Vice President of Gas Operations from 2010G to 2015G.

Mr. Al Sa'adi earned a B.S. in Chemical Engineering (Applied) from KFUPM in 1981G and he completed the Management Development Program at Harvard Business School in 2000G.

#### 6.7.2.5 *Mr. Mohammed Y. Al Qahtani, Senior Vice President, Upstream*

Mr. Mohammed Y. Al Qahtani, 54, has served as Senior Vice President of Upstream since 2016G. Currently, Mr. Al Qahtani serves as Chairman of the Dhahran Techno Valley Advisory Board and University of Hafr Al-Batin Advisory Board. In addition, he serves as a member of the Board of the Bilateral U.S.-Arab Chamber of Commerce. Mr. Al Qahtani is also a member of the College of Petroleum Engineering and Geosciences oversight committee at KFUPM.

Mr. Al Qahtani also has served in the following capacities:

- Vice President of Corporate Planning from 2014G to 2015G;
- Acting Senior Vice President of Operations and Business Services in 2014G;
- Vice President of Saudi Aramco Affairs from 2013G to 2014G; and
- Vice President of Petroleum Engineering and Development from 2011G to 2013G.

Mr. Al Qahtani earned both a Ph.D. and M.S. in Petroleum Engineering from the University of Southern California in 1996G and 1992G, respectively, and a B.S. in Petroleum Engineering from KFUPM in 1988G. In addition, he completed the IMD Programme for Executive Development in Lausanne, Switzerland.

#### 6.7.2.6 *Mr. Muhammad M. Al-Saggaf, Senior Vice President, Operations & Business Services*

Mr. Muhammad M. Al-Saggaf, 52, has served as Senior Vice President of Operations and Business Services since 2016G. Mr. Al-Saggaf also has served in the following capacities:

- Acting Senior Vice President of Operations and Business Services from 2014G to 2016G;
- President of KAPSARC from 2012G to 2014G; and
- General Manager of Strategic Transformation Office from 2011G to 2012G.

Mr. Al-Saggaf earned an MBA from KFUPM in 2005G, an M.S. and Ph.D. in Geophysics from the Massachusetts Institute of Technology in 1996G and 2000G, respectively, and a B.S. in Mathematics from KFUPM in 1989G. In addition, he completed the Management Development Program at Harvard Business School in 2005G.

#### 6.7.2.7 *Mr. Abdulaziz M. Al-Judaimi, Senior Vice President, Downstream*

Mr. Abdulaziz M. Al-Judaimi, 56, has served as Senior Vice President of Downstream since 2017G. Mr. Al-Judaimi also has served in the following capacities:

- Acting Senior Vice President of Downstream from 2016G to 2017G;
- Vice President of Power Systems from 2014G to 2017G;
- Vice President of Corporate Planning in 2014G;
- Vice President of Power Systems from 2013G to 2014G;
- Vice President of Chemicals from 2010G to 2013G;
- Director of SADARA from 2014G to 2016G; and
- Shareholder Representative of Saudi Electricity Company from 2014G to 2015G.

Mr. Al-Judaimi earned an MBA from Massachusetts Institute of Technology's Sloan School of Management in 2001G and a B.S. in Petroleum Engineering from KFUPM in 1983G.

#### 6.7.3 *Employment Contracts with the Chief Executive Officer and Chief Financial Officer*

##### 6.7.3.1 *Employment Contract of the Chief Executive Officer*

The CEO of the Company, Mr. Amin H. Nasser, has been employed by the Company since 1982G, pursuant to a letter of employment dated 3 November 1982G. Since the Company employs thousands of employees, it generally does not update its employment contracts, even if members of Senior Management, including the CEO, change roles within the Company. The CEO's salary and other employment benefits are determined by the Board and the various employment related policies of the Company.

##### 6.7.3.2 *Employment Contract of the Chief Financial Officer*

The CFO of the Company is Mr. Khalid Al-Dabbagh, whose official title at the Company is the "Senior Vice President, Finance, Strategy and Development", has been employed by the Company since 1 January 1994G. The CFO's salary and other employment benefits are determined by the Board and the various employment policies of the Company.

#### 6.8 **Compensation of Directors and Senior Executives**

Until 31 December 2017G, the Company's bylaws provided that the Company's Supreme Council determined the remuneration of the Company's Directors. Following conversion of the Company to a joint stock company on 1 January 2018G, the Bylaws now provide that the Board shall set the remuneration of the Directors as it deems appropriate, up to an annual maximum of SAR 1.8 million for each Director (provided that remuneration in excess of that amount may be approved by the General Assembly). Directors also receive reimbursement for certain expenses incurred in connection with their duties.

Pursuant to the Company's compensation policy (the "**Compensation Policy**"), which became effective as at 1 January 2018G, remuneration of the Senior Executives is determined by the Compensation Committee. The Compensation Policy was approved by the General Assembly, taking into account relevant laws and regulations, as well as international practices.

The Compensation Policy provides, among other things, that:

- the Company is to compensate Directors and Senior Executives in a manner that encourages the long-term success of the Company;
- a Director who is also an executive receives no additional fees for their service as a Director; and
- no Director or Senior Executive has any authority to vote on a contract or proposal in which they have a personal interest.

For the years ended 31 December 2016G, 2017G and 2018G, the Company paid the following aggregate remuneration to the Directors and the five highest paid Senior Executives, including the Chief Executive Officer and the Chief Financial Officer, including allowances, bonuses and other benefits (in cash or kind):

**Table 33: Directors and top five Senior Executives remuneration**

	For the year ended 31 December		
	2016G	2017G	2018G
	(SAR in millions)		
Directors <sup>(1)</sup>	9.3	9.3	10.7
Senior Executives <sup>(2)</sup>	88.8	95.7	80.8

Source: Company.

- (1) The Directors do not receive additional compensation for serving on committees of the Board. In addition to the Directors' remuneration for 2016G, at the direction of the Government, the Company continued executive level compensation to the Company's former CEO, who became Chairman of the Board on 10/1/1436H (corresponding to 29 April 2015G).
- (2) In 2017G, as a result of a restructuring of the Company's future retirement income plan, the Senior Executives waived their rights to future payments under the plan and were paid a distribution of previously accrued benefits.

## 6.9 Saudi Aramco Share Plan

The Company has established the Saudi Aramco Share Plan to provide additional incentives to employees whose contributions are essential to the growth and success of the Company, to attract and retain qualified individuals and to further align the interests of such employees with shareholders of the Company. The Compensation Committee or a subcommittee thereof (or a delegated plan administrator) will administer the plan and all sub-plans and has the authority to grant and determine the terms of awards thereunder, consisting of restricted shares and units, performance shares and units and other share based awards. Awards under the plan may be granted to full time employees of the Company and any of its subsidiaries and affiliates selected by the Compensation Committee to participate in the plan.

The Company has established sub-plans consisting of (i) a long-term incentive plan for executives, (ii) a long-term incentive plan for other members of management, (iii) an incentive plan for certain other employees and (iv) a celebratory grant plan, pursuant to which eligible employees will be awarded a one-time grant of restricted share units following the Offering. The Company may establish other sub-plans in the future, including an employee stock purchase plan.

Concurrently with the closing of the Offering, the Government will sell Shares with a value of \$1.0 billion (based on the Final Offer Price) to the Company for use under the plan and all sub-plans. In addition, Shares repurchased by the Company after the effective date of 3 October 2019G will be eligible for use under the plan and sub-plans. Shares may be granted under the plan for 10 years from the effective date.

## 6.10 Corporate Governance

The Company has adopted and implemented certain corporate governance policies and procedures specified in the Corporate Governance Regulations and is working to implement certain additional policies and procedures that it believes are appropriate for a company of its size, structure and industry. Moreover, the Company has implemented a Code of Business Conduct which provides guidelines to the Directors, Senior Management, employees and contract employees of the Company and its controlled affiliates regarding, among other things, health, safety and environmental protection, competition and antitrust, anti-bribery and anti-corruption, insider trading and compliance with applicable law. On 12 July 2017G, the Board approved the following corporate governance policies in accordance with the Corporate Governance Regulations and the Bylaws:

- Corporate Governance Manual, including detailed provisions relating to the rights of shareholders, general assemblies, Board of Directors, committees of the Board, internal controls, auditing, compliance, and internal policies;
- Authority and Delegation Policy;
- Code of Business Conduct;
- Conflict of Interest Policy;
- Related Party Transactions Policy;

- Risk Management Policy;
- Stakeholder Protection Policy;
- Reporting and Non-retaliation Policy; and
- Disclosure Policy.

In light of the recommendations made by the Board in accordance with the Bylaws, the Shareholder has approved the following policies:

- Dividend Policy;
- Compensation Policy;
- Nomination Policy; and
- CSR Policy.

The Directors acknowledge that the Company is currently in compliance with most of the mandatory provisions of the Corporate Governance Regulations, and will comply with all these provisions upon listing.

### 6.11 Conflicts of Interest

Neither the Company's Bylaws nor any of the Company's internal regulations and policies grant a Director the power to vote on any contract or offer in which he has a direct or indirect interest without the prior authorisation of the Board. The Directors confirm that:

- Without prejudice to the provisions of the Company's Bylaws, including Article 43 thereof, they will comply with Articles 71 and 72 of the Companies Law and Articles 44 and 46 of the Corporate Governance Regulations;
- They will not vote on General Assemblies' resolutions that relate to any Related Party transaction or contract in which the Directors have a direct or indirect personal interest; and
- Without prejudice to the Company's Bylaws, they will not compete with the Company's business in accordance with Article 72 of the Companies Law.

As at the date of this Prospectus, the Directors do not have a conflict of interest in relation to contracts or transactions entered into with the Company and are not engaged in any activities similar to, or competing with, the Company's activities.

As at the date of this Prospectus, none of the Company's Directors, Senior Executives or any of their relatives have entered into a transaction on a non-arm's length basis or in which he or she has or will have a direct or indirect personal interest.

### 6.12 Employees

As at 31 December 2016G, 2017G and 2018G, Saudi Aramco and its wholly owned subsidiaries employed 67,718, 70,762 and 76,418 people, respectively.

The following table shows the number of employees of Saudi Aramco and its Material Subsidiaries in the Kingdom and achieved Saudisation percentages as at 31 December 2016G, 2017G and 2018G.

**Table 34: Number of employees of Saudi Aramco and its Material Subsidiaries in the Kingdom and achieved Saudisation percentages as at 31 December 2016G, 2017G and 2018G**

Company	31 December 2016G				31 December 2017G				31 December 2018G			
	Saudi	Non-Saudi	Total	Saudisation percentage	Saudi	Non-Saudi	Total	Saudisation percentage	Saudi	Non-Saudi	Total	Saudisation percentage
Saudi Aramco	55,466	9,816	65,282	85%	57,866	8,276	66,142	87%	59,848	8,099	67,947	88%
SATORP	666	332	998	67%	724	302	1,026	71%	767	275	1,042	74%
ATC	71	14	85	84%	93	23	116	80%	128	38	166	77%
<b>Total</b>	<b>56,203</b>	<b>10,162</b>	<b>66,365</b>	<b>85%</b>	<b>58,683</b>	<b>8,601</b>	<b>67,284</b>	<b>87%</b>	<b>60,743</b>	<b>8,412</b>	<b>69,155</b>	<b>88%</b>

Source: Company.

The following table shows the number of employees of Saudi Aramco and their distribution across Saudi Aramco's operating segments as at 31 December 2016G, 2017G and 2018G.

**Table 35: Number of employees of Saudi Aramco and their distribution across Saudi Aramco's operating segments as at 31 December 2016G, 2017G and 2018G**

Business Segment	31 December 2016G			31 December 2017G			31 December 2018G		
	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total	Saudi	Non-Saudi	Total
Upstream .....	19,988	2,477	<b>22,465</b>	21,761	2,325	<b>24,086</b>	23,305	2,299	<b>25,604</b>
Downstream .....	12,595	1,437	<b>14,032</b>	13,249	1,528	<b>14,777</b>	13,499	1,594	<b>15,093</b>
Corporate <sup>(1)</sup> .....	22,883	5,902	<b>28,785</b>	22,856	4,423	<b>27,279</b>	23,044	4,206	<b>27,250</b>
<b>Total</b> .....	<b>55,466</b>	<b>9,816</b>	<b>65,282</b>	<b>57,866</b>	<b>8,276</b>	<b>66,142</b>	<b>59,848</b>	<b>8,099</b>	<b>67,947</b>

Source: Company.

(1) The Company's corporate segment includes technical services that are essential to the success of the Company's core activities, as well as human resources, finance, corporate affairs and legal.

For a description of the Kingdom's Saudisation policy and its application to the Company, see Section 5.5.3 (*Saudisation*).



## **7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

### **7.1 Introduction**

The following management's discussion and analysis of the Company's financial position and results of operations should be read in conjunction with the information presented under the heading "Summary Financial Information" and the Financial Statements, included elsewhere in this Prospectus. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "*Forecasts and Forward-Looking Statements*" on page ix. The Company's future actual results could differ materially from those anticipated in the forward-looking statements contained herein for several reasons, including those presented in Section 2 (*Risk Factors*) and elsewhere in this Prospectus.

The 2017G Financial Statements and the 2018G Financial Statements have been prepared by the Company in accordance with IFRS. The 2017G Financial Statements and the 2018G Financial Statements have been audited by the Auditor, as stated in its audit reports for the 2017G Financial Statements and the 2018G Financial Statements. The 2019G Six Month Interim Period Financial Statements have been prepared by the Company in accordance with IAS 34. The financial information as at and for the year ended 31 December 2016G included elsewhere in this Prospectus has been derived without material adjustment from the comparative column of the 2017G Financial Statements. In the preparation of its 2018G Financial Statements, the Company reclassified certain 2017G results that appear in the 2017G comparative column included in the 2018G Financial Statements. The financial information in this section for the year ended 31 December 2017G has been extracted from the 2017G Financial Statements, rather than the 2017G comparative column of the 2018G financial statements. The Auditor confirms its independence from the Company as stated in its audit reports included elsewhere in this Prospectus.

### **7.2 Directors' Declarations for Financial Statements**

See Section 12 (*Declarations in Respect of Directors*).

### **7.3 Key Factors Affecting the Company's Operations**

The following is a discussion of the most significant factors that have impacted the Company's business and affected the Company's financial position and results of operations for the years ended 31 December 2016G, 2017G and 2018G and for the six months ended 30 June 2018G and 2019G or are expected to affect the Company's financial position and results of operation in the future. These factors include the supply, demand and price of hydrocarbons, the sale of upstream liquids and gas products, seasonality and fiscal regime changes, among others. These factors are based on the information currently available to the Company and may not represent all factors that have an impact on the Company's business. See Section 2 (*Risk Factors*).

#### **7.3.1 Supply, Demand and Price for Hydrocarbons**

The Company's upstream segment results of operations are driven primarily by its sales of crude oil, condensate and NGLs and depend on global demand and prices for these products. Sales of crude oil are the largest component of the Company's consolidated revenue and other income related to sales, accounting for 86.4%, 56.7% and 56.4% of its consolidated revenue and other income related to sales for the years ended 31 December 2016G, 2017G and 2018G, respectively and 57.0% for the six months ended 30 June 2019G. Accordingly, the Company's results of operations and cash flow are significantly impacted by the price at which it is able to sell crude oil.

International crude oil prices have fluctuated significantly in the past and may remain volatile. Crude oil prices witnessed a significant decline between mid-2014G and early 2016G, with Brent prices declining from a monthly average of \$112.0 per barrel in June 2014G to a monthly average of \$31.9 per barrel in January 2016G. Since January 2016G, Brent prices have generally fluctuated between \$50.0 and \$75.0 per barrel. Most recently, the Brent price was at a monthly average of \$61.5 per barrel in September 2019G. See Section 3.3 (*Liquids Supply-Demand Balance*). The price of crude oil significantly impacts the upstream segment's results of operations and is linked to the Company's formulas to determine selling prices. Factors affecting the market price for crude oil, condensate and NGLs include, but are not limited to:

- market expectations with respect to future supply of petroleum and petroleum products, demand and price changes, including future demand for petroleum products in Asia, which accounted for 37.2% of global

refined product demand in 2018G and is expected to account for approximately 41.1% of global refined product demand in 2030G according to the Industry Consultant;

- global economic and political conditions and geopolitical events, including any that impact international trade (including trade routes);
- decisions regarding production levels by the Kingdom or other producing states (the Kingdom is a member country of OPEC) (see Section 4.14 (*Relationship with the Kingdom*));
- the development of new crude oil exploration, production and transportation methods or technological advancements in existing methods, including hydraulic fracturing or “fracking”;
- capital investments of oil and gas companies relating to the exploration, development and production of crude oil reserves;
- the impact of climate change on the demand for, and price of, hydrocarbons (see Section 2.2.3 (*Risks related to climate change*));
- changes to environmental or other regulations or laws applicable to crude oil and related products or the energy industry (see Section 2.2.11 (*Risks related to environmental protection, health and safety laws and regulations*));
- prices of alternative energies, including renewable energy;
- the electrification of transportation, technological developments in the cost and endurance of fuel cells for electric vehicles and changes in transportation-mode preferences, including ride-sharing;
- weather conditions affecting supply and demand;
- fluctuations in the value of the U.S. Dollar, the currency in which crude oil is priced globally; and
- trading activities in the crude oil commodities market.

Crude oil is also a major component of the cost of production of refined products and chemicals that use hydrocarbons as a feedstock. However, because market prices for refined products and chemicals may not timely adjust to reflect movements in crude oil prices, such movements could, in the short-term, positively or negatively impact margins for downstream products that use hydrocarbons as a feedstock. The prices for refined products and chemicals are also impacted by changes in supply and demand and economic cycles.

In the Kingdom, the Government regulates the oil and gas industry and establishes the Kingdom’s maximum level of hydrocarbon production in the exercise of its sovereign prerogative. Accordingly, the Government may in its sole discretion increase or decrease the Kingdom’s maximum hydrocarbon production at any time based on its strategic energy security goals or for any other reason. Therefore, the Company’s results of operations may depend in part on sovereign decisions with respect to production levels that are made by the Government.

In addition, the Concession requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG. See Section 13.5.1 (*The Concession*). The Company’s downstream product mix includes a high proportion of low margin refined products, such as fuel oil to satisfy domestic demand for such products. As domestic demand for hydrocarbon products grows and new dedicated outlets for crude oil production in the Company’s downstream segment become operational, such as the 400,000 barrel per day Jazan refinery and planned capacity increases at SATORP and YASREF, volumes of crude oil available for export may decrease.

The supply, demand and price for hydrocarbon products also affects the results of operations of ATC, the Company’s in-house trading business, which trades internationally and delivers the Company’s refined products to customers outside the Kingdom using spot chartered and time chartered vessels.

### **7.3.2 Upstream Liquid Sales**

Almost all of the crude oil that the Company produces in a given year is sold within that year. The Company sells crude oil to its downstream wholly owned and affiliated refineries under long-term sales or offtake agreements. The Company’s crude oil sales agreements with its third party customers generally have a term of one year and are automatically renewed if not terminated. These agreements are typically for a specified volume and grade of crude oil at a price based on a formula that reflects the market prices in the relevant geographical region in which the oil will be delivered. The pricing formulas use “marker crudes” in each geographical region to determine a market-based price. The formulas also include price differentials for each grade in each region, which are set by the Company on a monthly basis, and reflect crude oil quality differences vis-à-vis the marker crude and other

factors, such as the value of competing crudes, in-transit losses, freight allowances and other commercial considerations. These formula prices are also used for sales of the Company's crude oil to its in-Kingdom and international wholly owned and affiliated refineries. As a result, because the Company's crude oil prices are tied to global crude oil market prices, the Company's results of operations for any given period will reflect volatility in those prices. See Section 4.7.1.3(f) (*Sales and Marketing*).

In 2018G, 38% of the Company's crude oil production volumes were sold to its downstream refining system. The Company maintains seven international offices as part of the Company's crude oil sales and marketing function. In anticipation of expected growth in oil demand from Asia, the Company is focussed on crude oil exports to Asia. In 2016G, 2017G and 2018G, customers in Asia, including the Company's affiliated refineries located in Asia, purchased 69%, 71% and 71%, respectively, of the Company's crude oil exports.

The following table highlights the destinations of the Company's crude oil deliveries for each of the years ended 31 December 2016G, 2017G and 2018G.

**Table 36: The Company's crude oil deliveries for each of the years ended 31 December 2016G, 2017G and 2018G**

	Year Ended 31 December		
	2016G	2017G	2018G
	(mbpd)		
<b>Region:</b>			
Asia (ex-Kingdom) .....	5,170	5,073	5,211
North America .....	1,176	1,005	1,013
Europe .....	871	779	864
Other .....	246	243	240
<b>Total international deliveries<sup>(1)</sup> .....</b>	<b>7,463</b>	<b>7,099</b>	<b>7,328</b>
Deliveries to domestic joint ventures and joint operations at unregulated prices .....	1,793	1,902	1,860
Local deliveries at regulated prices .....	498	459	410
Deliveries to domestic wholly owned refineries .....	739	704	707
<b>Total in-Kingdom deliveries<sup>(1)</sup> .....</b>	<b>3,030</b>	<b>3,065</b>	<b>2,977</b>
Loss <sup>(2)</sup> .....	9	8	10
Change in crude oil inventory .....	59	(92)	0
<b>Total crude oil production<sup>(1)(3)</sup> .....</b>	<b>10,561</b>	<b>10,080</b>	<b>10,315</b>

Source: Company.

- (1) Includes condensate blended with crude oil of 116 mbpd, 121 mbpd and 125 mbpd for the year ended 31 December 2016G, 2017G and 2018G, respectively.  
(2) Primarily accounts for differences in volumes measured upon loading and unloading of crude oil shipments.  
(3) Production does not include volumes produced from Abu Sa'fah delivered to the Kingdom of Bahrain, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016G, 2017G and 2018G, respectively.

### 7.3.3 Upstream Gas Sales

Pursuant to the Concession, the Company is the exclusive supplier of natural gas in the Kingdom. All natural gas produced by the Company is sold in-Kingdom. From 2003G to 2018G, the Company significantly expanded its gas processing capacity from 9.3 billion standard cubic feet per day to 15.5 billion standard cubic feet per day. The Company intends to continue to expand its capacity over the next few years to meet domestic demand for low-cost clean energy and swing production capacity in the peak summer season. According to the Industry Consultant, the Kingdom's demand for natural gas is expected to grow at an average rate of 3.6% annually from 9.1 billion cubic feet per day in 2017G to 14.6 billion cubic feet per day in 2030G. The Company expects that the Kingdom will increasingly rely on natural gas as a feedstock for its power generation facilities, reducing the amount of crude oil volumes used by power generators. This displacement of crude oil by gas used domestically is expected to increase crude oil volumes available for export. The Company is pursuing investment and joint venture opportunities outside the Kingdom in natural gas and LNG projects and may pursue additional opportunities elsewhere in the near future. In addition, the Company expects demand for natural gas to be driven by petrochemical production and other industrial consumption.

The Company sells natural gas within the Kingdom at regulated prices mandated by the Government and is obligated under the Concession to meet domestic hydrocarbon demand through either domestic production or imports. Effective 27 March 2018G, the Government implemented a mechanism under which regulations passed by the Council of Ministers empower the Ministry of Energy, in agreement with the Ministry of Finance, to enable the Company to receive a commercial rate of return suitable for the development and exploitation of the gas resources of the Kingdom. See Section 7.3.6 (*Fiscal Regime Changes*).

#### **7.3.4 In-Kingdom Downstream Product Sales**

The Company's downstream products sold domestically through domestic sales agreements include gasoline, diesel, fuel oil, LPG, asphalt, kerosene, naphtha and jet fuels. Sales agreements generally have a term of one year, except for sales agreements with customers in the utility and aviation sectors which generally have a longer term. Typically, these agreements are automatically renewed if not terminated. In the Kingdom, gasoline, diesel, fuel oil, LPG, asphalt and kerosene are sold at regulated prices mandated by the Government. The regulated prices often have been lower than the prices at which the Company could otherwise have sold such refined products. As a result, prior to 2017G, the downstream business performed at an overall net loss. As at 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of the Company's compliance with the mandates related to crude oil and certain refined products, with equalisation compensation recorded as other income related to sales. Effective 1 January 2020G, the Government will expand the equalisation mechanism to include LPGs and certain other products. See Section 7.3.6 (*Fiscal Regime Changes*). For sales of downstream products that are not subject to Government pricing mandates, prices are based on unregulated prices for the relevant product and are updated on a weekly or monthly basis, depending on the product.

#### **7.3.5 Investments and Acquisitions in Expansion of Downstream Segment**

The downstream segment's activities consist primarily of refining and petrochemical manufacturing and supply, trading and marketing operations. A significant portion of the downstream business is conducted through affiliates. The Company has expanded its downstream operations by undertaking expansion projects at its existing downstream facilities and increasing control in existing downstream investments, as well as entering new downstream ventures and acquiring new downstream assets.

The integration of the Company's upstream and downstream segments provides a unique opportunity for the Company to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. For the years ended 31 December 2016G, 2017G and 2018G, downstream consumed 36%, 39% and 38% of its upstream's total crude oil production in those periods, making the Company's downstream business the largest single customer of its upstream business in those years.

The Company has undertaken significant expansion projects at its downstream facilities. The Company's capital expenditures in its downstream segment were SAR 16.1 billion for the six months ended 30 June 2018G and SAR 11.6 billion (\$3.1 billion) for the six months ended 30 June 2019G. The Company's capital expenditures in its downstream segment were SAR 31.0 billion in 2016G, SAR 35.6 billion in 2017G and SAR 32.7 billion (\$8.7 billion) in 2018G. See Section 7.8.3 (*Capital Expenditures*).

In addition, the Company has recently entered into new downstream ventures, such as PRefChem. The Company has also completed significant transactions to increase its ownership stake in entities that were formerly joint ventures. For example, on 1 May 2017G the Company completed a transaction to separate the assets, liabilities and businesses of its former Motiva joint venture with affiliates of Shell and transferred assets and liabilities retained by the Company to its wholly owned subsidiary (Motiva). This transaction led to the portion of the Motiva business that was transferred to the Company being consolidated into the Company's financial statements from 1 May 2017G instead of being accounted for using the equity method, as was the case for the Company's interest in the prior Motiva joint venture for prior periods. Furthermore, on 31 December 2018G, the Company purchased the 50% share of ARLANXEO from Lanxess that it did not already own, which led to the Company fully consolidating ARLANXEO into its financial statements from 31 December 2018G. Additionally, on 18 September 2019G, the Company acquired Shell's 50% interest in SASREF that it did not already own and subsequently changed the name of SASREF to Saudi Aramco Jubail Refinery Company. The Company also entered into a purchase agreement with the PIF on 27 March 2019G to acquire the PIF's 70% equity interest in SABIC. The Company expects that the acquisition of a majority stake in SABIC will support significant expansion of the Company's downstream activities, particularly in its chemicals business. See Sections 4.7.2 (*Downstream*) and 13.9.3.1 (*Proposed Acquisition of Equity Interest in SABIC*).

Expansion of the downstream segment's refining capacity increases the Company's ability to place more of its crude oil volumes with its downstream operations globally. As the Company's refining capacity at its dedicated outlets for its crude oil increases, the Company expects to deliver more crude oil volumes to these customers. The Company believes an integrated global downstream business, coupled with future downstream investments, will facilitate the placement of the Company's crude oil in larger offtake volumes in assets designed specifically to economically process Arabian crude oil, allow it to capture additional value across the hydrocarbon chain, expand its sources of earnings and provide resilience to market volatility. The Company has expanded and intends to continue to expand its downstream business, including through acquisitions, affiliates and international investments.

### 7.3.6 *Fiscal Regime Changes*

The Government has adopted a number of changes to the fiscal regime under which the Company operates. Among other things, these changes align the fiscal regime to which the Company and other domestic hydrocarbon producers are subject to tax and royalty rates that are customary in other hydrocarbon producing jurisdictions. Below is a summary of these changes and their impact on the Company.

- **Income tax rate.** The Company and its interests in in-Kingdom entities are subject to the Kingdom's Income Tax Law. The Kingdom's Income Tax Law includes a new multi-tiered structure of income tax rates for authorised producers of hydrocarbons, which are based on the amount of in-Kingdom capital investments (with the income tax rate decreasing as the level of in-Kingdom capital investment increases). Under this new structure, effective 1 January 2017G, the income tax rate applicable to Saudi Arabian Oil Company decreased from 85% to 50%. In addition, effective from 1 January 2018G, a 20% rate applies to Saudi Arabian Oil Company's taxable income related to the exploration and production of non-associated natural gas (including gas condensates) as well as the collection, treatment, processing and transportation of associated and non-associated natural gas and their liquids, gas condensates and other associated elements. Further, under the Kingdom's Income Tax Law, Saudi Arabian Oil Company's interests in in-Kingdom subsidiaries are generally subject to a 20% tax rate, unless such subsidiary is engaged in the production of oil and its associated hydrocarbon products in which case the 50% to 85% multi-tiered structure of income tax rates applies, except that a 20% rate would apply to such subsidiary's taxable income related to certain natural gas activities as described above.

Additionally, by Royal Decree No. M/13, dated 18/1/1441H (corresponding to 17 September 2019G), Council of Ministers Resolution No. 54, dated 18/1/1441H (corresponding to 17 September 2019G) and Ministerial Resolution issued by the Ministry of Finance No. 559, dated 10/2/1441H (corresponding to 9 October 2019G), effective 1 January 2020G, the tax rate applicable to the Company's downstream business will be the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law, rather than the 50% to 85% multi-tiered structure of income tax rates that applies to domestic oil and hydrocarbons production companies in the Kingdom, on the condition that the Company consolidate its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024G. If the Company does not comply in so consolidating its downstream business by 31 December 2024G, the Company's downstream business will be taxed retroactively on an annual basis for such five-year period in accordance with the multi-tiered tax rates applicable to domestic oil and hydrocarbon production companies. In such case, the Company will be required to pay the difference in taxes due to the Government.

- **Royalties.** Prior to 1 January 2017G, royalties were assessed primarily on crude oil and refined products and were calculated based on sales of the relevant product, with recognition of royalty expenses occurring at the time of sale and deducted from revenue in the Company's consolidated statement of income.

From 1 January 2017G, royalties are payable on crude oil and condensate, natural gas, ethane and NGLs and are based on their production value. See Section 13.5.1 (*The Concession*). Accordingly, the amount of royalties payable is recognised as an expense at the time of production and in the Company's statement of income as "production royalties".

As a result of the changes in royalties applicable to the Company, revenue for 2017G and 2018G is not directly comparable to prior years.

Crude oil and condensate production value is based each month on the Company's official selling prices for each destination market. The effective royalty rate is determined based on a baseline rate of 20% applied to Brent prices up to \$70 per barrel, increasing to 40% applied to Brent prices above \$70 per barrel up to \$100 per barrel and 50% applied to Brent prices above \$100 per barrel. Effective 1 January 2020G, the

Concession Amendment, entered into on 19 September 2019G, will result in a change to the effective royalty rates payable to the Government with respect to the Company's production of crude oil and condensates, including those used by the Company in its operations. Based on the Concession Amendment, the effective royalty rate will be determined based on a baseline rate of 15% applied to Brent prices up to \$70 per barrel, increasing to a marginal rate of 45% applied to Brent prices above \$70 per barrel up to \$100 per barrel and a marginal rate of 80% applied to Brent prices above \$100 per barrel.

Pursuant to the Ministry of Energy's authority under the Concession, on 25 February 2018G, the Ministry of Energy decided not to collect royalties from Saudi Aramco on condensate production for a grace period of five years beginning on 1 January 2018G. On 17 September 2019G, the Ministry of Energy issued Ministerial Resolution No. 1/422/1441, dated 18/1/1441H (corresponding to 17 September 2019G), which extends the period for which Saudi Aramco will not be obligated to pay royalties on condensate production for an additional 10-year period from 1 January 2023G, the day following the expiration of the five-year grace period extendable for an additional 10-year period, and may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development do not warrant such an extension.

Production royalties due on natural gas, ethane and NGLs, excluding those volumes used by the Company for upstream operations and related operations (including transportation, pipelines and storage and export facilities, fractionation plants, gas and NGLs plants) are calculated based on a flat royalty rate of 12.5% applied to a factor established by the Ministry of Energy. As at the date of the Prospectus, the factor to which this royalty is applied is \$0.035 per mmBTU for NGLs (propane, butane and natural gasoline) and \$0.00 per mmBTU for natural gas (methane) and ethane.

In light of the change of royalties from sales-based to production-based, volumes of crude oil and condensate and natural gas and NGLs that were produced towards the end of 2016G and held on the balance sheet as inventory as at 31 December 2016G were not subject to royalties in 2016G as those volumes were not sold under the prior sales-based royalty regime. In 2017G, revenue was reduced by royalties of SAR 5.5 billion (\$1.5 billion) on these volumes, which were paid in 2018G.

- *Price Equalisation.* Pursuant to the Concession, the Company possesses the exclusive right to sell crude oil and refined products in the Kingdom. In connection with this exclusive right, the Government mandates that crude oil and certain refined products sold to third parties in the Kingdom are sold at regulated prices that are typically lower than the prices at which the Company could otherwise have sold such products. Effective 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of the Company's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020G, the Government will expand the equalisation mechanism to include LPGs and certain other products. The Company records the equalisation amount as other income related to sales on its consolidated statement of income and such amount is subject to income tax. The Company may offset its income taxes payable by the equalisation amount in the period in which such taxes are due. If the income taxes payable to the Government are not adequate to offset the equalisation amount, the Company may offset any other amounts it owes to the Government against the equalisation amount. The offsetting mechanism occurs on a monthly basis when payments to the Government are due. In the event the equalisation price is less than the regulated price, the difference would be due from the Company to the Government. See Section 5.4 (*Regulated Domestic Pricing of Certain Hydrocarbons*).

The Government has publicly announced its intention to gradually modify the regulated prices at which refined products are sold in the Kingdom. The regulated prices will be linked as a percentage to the reference equalisation price of the relevant product and will fluctuate according to fluctuations in global markets. As regulated prices increase, the Company expects that equalisation compensation will decrease and that, in turn, the amount of other income related to sales recorded by the Company will decrease, with an offsetting increase in revenue from product sales.

- *Gas Price System.* Gas sales in the Kingdom are regulated by the Government, including the Ministry of Energy, which allocates volumes for sales of Regulated Gas Products in the Kingdom to domestic customers pursuant to the GSPR. The price that domestic customers pay for natural gas and ethane is traditionally set by the Council of Ministers. Effective on 27 March 2018G, the Council of Ministers empowered the Ministry of Energy, in agreement with the Ministry of Finance, to specify the Blended Price in order to provide such licencees making gas investments a suitable rate of return for these products in the Kingdom. The Council of Ministers also decided that the domestic prices for Regulated Gas Products (excluding any Government fees or VAT) shall not be lower than the Blended Price. If Domestic Prices are higher than the

Blended Price, licencees shall pay the difference to the Government. Subsequently, the Ministry of Energy in agreement with the Ministry of Finance issued a ministerial decision setting such Blended Price at a level they determined would permit licencees to achieve reasonable internal rates of return on existing non-associated gas projects and on future non-associated projects.

Effective as at 17 September 2019G, the Government implemented an equalisation mechanism to compensate licencees for revenue they directly forgo as a result of the licencees' compliance with the mandates related to Regulated Gas Products. This equalisation mechanism replaced the prior system, which required that Government-mandated prices for domestic supply of Regulated Gas Products could not be lower than the corresponding Blended Prices. Under the new system, when licencees sell any Regulated Gas Products domestically at a Domestic Price below the corresponding Blended Price, the licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of the licencees' compliance with the Kingdom's current pricing mandates. The Company may offset the compensation it is due against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by the Company to the Government, such as royalties. See Section 5.4.3 (*Gas Pricing*).

- *Government guarantee.* The Company sells hydrocarbon products to various Government and semi-Government entities, including ministries and other branches of the Government, and separate legal entities in which the Government has share ownership or control. Prior to 2017G, the payment of receivables from these customers was not guaranteed and revenue was recognised only when payment was received and the Company recorded an allowance for the receivable. From the 1980Gs to 2016G the Company periodically transferred to the Government receivables that were owed by these entities for which payment had not been received for no consideration and reversed the related allowance. Accordingly, these transfers did not impact the Company's financial statements. Most recently, in 2016G, the Company transferred receivables in the amount of SAR 52.4 billion (\$14.0 billion) to the Ministry of Finance for no consideration and reversed the related allowance.

Effective 1 January 2017G, the Government guaranteed amounts due to the Company from certain Government and semi-Government entities, including ministries of the Government and separate legal entities in which the Government has share ownership or control that are unable to settle within terms agreed with the Company, subject to limits on the amount of the guarantee for each entity. The aggregate amount guaranteed in respect of 2017G, 2018G and 2019G was SAR 22.4 billion, SAR 32.7 billion and SAR 26.7 billion, respectively.

Pursuant to certain governmental resolutions as further described in Section 5.4.4 (*Government Guarantee*), the Company may offset any amounts owed by such Government or semi-Government entities under any agreement with such customers from its income taxes payable to the Government. This includes amounts due to the Company from sales of crude oil and refined products to Government-affiliated companies. If the amounts of the income taxes payable to the Government are not adequate to offset the amounts owed by such customers, the Company may offset such amounts against any other amounts the Company owes to the Government. See Section 5.4.4 (*Government Guarantee*).

- *Treatment of certain historic receivables.* In 2016G, a Council of Ministers decision was issued to transfer a series of receivables amounting to SAR 18.1 billion that was due to the Company from certain foreign governments to the Ministry of Finance, net of SAR 15.5 billion of associated taxes and royalties due to the Government, in exchange for a tax offset of SAR 2.6 billion in 2016G. As part of the fiscal regime changes, the Company expects future settlements of receivables to be settled pursuant to the Government guarantee. See Section 5.4.4 (*Government Guarantee*).
- *Compensation for Saudi Strategic Storage Program.* Under the Saudi Strategic Storage Program, the Government requires the Company to maintain reserves of certain petroleum products. Pursuant to Council of Ministers Resolution No. 56, dated 18/1/1441H (corresponding to 17 September 2019G), effective 1 January 2020G, the Government will compensate the Company for carrying costs associated with maintaining Government-mandated petroleum product reserves in an amount of \$41.2 million per month. Council of Ministers Resolution No. 56 requires that this amount be reviewed by the Ministry of Energy, the Ministry of Finance and the Company every five years.

### 7.3.7 *Seasonality*

The operating results of the Company's upstream and downstream segments may fluctuate slightly from quarter to quarter as a result of a variety of seasonal factors affecting energy demand. For example, there is an increase in

natural gas demand for the utilities sector during the summer months in the Kingdom (June, July and August). As such, the Company's upstream segment produces and sells more natural gas during this period. In addition, there is an increased demand for diesel, gasoline and jet fuel in the Kingdom around its major holidays, including Eid al-Fitr, Hajj season and Eid al-Adha, the timing of which varies from year to year as determined by the Hijri calendar. During this time, the Company's downstream segment sells more diesel, gasoline and jet fuel. The Company expects these trends to continue in future years.

#### 7.4 Key Performance Indicators and Non-IFRS Financial Measures

##### 7.4.1 Key Performance Indicators

The following table sets forth the Company's key operational performance indicators for the years ended 31 December 2016G, 2017G and 2018G.

**Table 37: The Company's key operational performance indicators for the years ended 31 December 2016G, 2017G and 2018G**

	Year Ended 31 December		
	2016G	2017G	2018G
Crude oil production (mbpd) <sup>(1)</sup>	10,561	10,080	10,315
Total liquids production (mbpd)	11,825	11,325	11,629
Combined upstream hydrocarbon production (mboed) <sup>(2)</sup>	13,634	13,223	13,567
Gross refining throughput (mbpd)	N/A	N/A	4,695
Crude oil delivery reliability (%)	N/A	99.7	99.8

Source: Company.

(1) Includes condensate blended with crude oil of 116 mbpd, 121 mbpd and 125 mbpd for the years ended 31 December 2016G, 2017G and 2018G, respectively.

(2) Combined barrel of oil equivalent volume (mboed) is derived from mmscfd (for natural gas and ethane) by dividing the relevant product production by 5.400 (in the case of natural gas) and 3.330 (in the case of ethane).

For more information on the Company's upstream production and deliveries, see Section 4.7.1.2 (*Upstream Production and Deliveries*). For more information on the Company's gross refining throughput, see Section 4.7.2 (*Downstream*).

##### 7.4.2 Non-IFRS Financial Measures

The Company supplements its use of IFRS financial measures with non-IFRS financial measures, including Free Cash Flow, Gearing, ROACE, EBIT and EBITDA. These non-IFRS financial measures do not have a standardised definition and other companies may calculate them differently. Therefore, the Company's non-IFRS financial measures may not be comparable to similarly titled measures presented by other companies and should not be relied upon to the exclusion of IFRS financial measures. The Company believes that the historical non-IFRS financial measures are useful as an additional tool to help management and investors make informed decisions about the Company's financial position, operating performance or liquidity.

The following table sets forth the Company's EBIT, EBITDA and Free Cash Flow for the years ended 31 December 2016G, 2017G and 2018G and for the six months ended 30 June 2019G.

**Table 38: EBIT, EBITDA and Free Cash Flow for the years ended 31 December 2016G, 2017G and 2018G and for the six months ended 30 June 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
EBIT	305,497	582,349	798,015	212,804	379,990	346,899	92,506
EBITDA	352,758	619,524	839,349	223,827	399,753	371,196	98,985
Free Cash Flow	6,065	211,652	321,935	85,849	133,472	142,426	37,980

Source: Financial Statements and Company.



The following table sets forth the Company's ROACE for the years ended 31 December 2016G, 2017G and 2018G and for the twelve months ended 30 June 2018G and 2019G.

**Table 39: ROACE for the years ended 31 December 2016G, 2017G and 2018G and for the twelve months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Twelve Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
ROACE .....	6.6%	33.8%	41.1%	41.1%	38.8%	36.0%	36.0%

Source: Financial Statements and Company.

The following table sets forth the Company's Gearing as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 40: Gearing as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December			As at 30 June
	2016G	2017G	2018G	2019G
Gearing .....	0.6%	(0.4)%	(8.6)%	2.4%

Source: Financial Statements and Company.

As at 1 January 2017G, the income tax rate applicable to Saudi Aramco was reduced from 85% to 50%. Effective from 1 January 2018G, a 20% tax rate applies to Saudi Aramco's taxable income related to certain natural gas activities. In addition, the Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. As at 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of the Company's compliance with the mandates related to crude oil and certain refined products. These changes impact net income, net cash provided by operating activities and cash and cash equivalents, and therefore impact the Company's non-IFRS financial measures. As a result, the Company's non-IFRS financial measures for the years ended 31 December 2017G and 2018G and the six months ended 30 June 2018G and 2019G are not directly comparable to such non-IFRS financial measures for the year ended 31 December 2016G. See Section 7.3.6 (*Fiscal Regime Changes*).

Furthermore, the Company adopted IFRS 16 on 1 January 2019G. This adoption impacts operating expenses, current and non-current liabilities, net cash used in financing activities, net cash from operating activities and property, plant and equipment and related depreciation, and therefore impacts the Company's non-IFRS financial measures. As a result, the Company's non-IFRS financial measures for the six months ended 30 June 2019G are not directly comparable to prior periods.

#### 7.4.3 Free Cash Flow

The Company uses Free Cash Flow to evaluate the Company's cash available for financing activities, including dividend payments. The Company defines Free Cash Flow as net cash provided by operating activities less capital expenditures.

The following table sets forth the Company's Free Cash Flow for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 41: Free Cash Flow and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Net cash provided by operating activities <sup>(1)</sup>	109,411	333,607	453,701	120,987	195,213	196,689	52,450
Capital expenditures	(103,346)	(121,955)	(131,766)	(35,138)	(61,741)	(54,263)	(14,470)
<b>Free Cash Flow</b>	<b>6,065</b>	<b>211,652</b>	<b>321,935</b>	<b>85,849</b>	<b>133,472</b>	<b>142,426</b>	<b>37,980</b>

Source: Financial Statements and Company.

(1) Includes settlement of income and other taxes in 2017G and 2018G. See Note 23(a) to the 2018G Financial Statements.

#### 7.4.4 Gearing

Gearing is a measure of the degree to which the Company's operations are financed by debt. The Company defines Gearing as the ratio of net debt (total borrowings less cash and cash equivalents) to net debt plus total equity. Management believes that Gearing is widely used by analysts and investors in the oil and gas industry to indicate a company's financial health and flexibility.

The following table sets forth the Company's Gearing as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 42: Gearing and reconciliation as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions, except percentages)					
Current borrowings	8,982	8,906	29,989	7,997	38,407 <sup>(1)</sup>	10,242 <sup>(1)</sup>
Non-current borrowings	43,477	68,692	71,329	19,021	134,472 <sup>(1)</sup>	35,859 <sup>(1)</sup>
<b>Total borrowings</b>	<b>52,459</b>	<b>77,598</b>	<b>101,318</b>	<b>27,018</b>	<b>172,879</b>	<b>46,101</b>
Cash and cash equivalents	(48,075)	(81,242)	(183,152)	(48,841)	(148,225)	(39,527)
<b>Net debt/(cash)</b>	<b>4,384</b>	<b>(3,644)</b>	<b>(81,834)</b>	<b>(21,823)</b>	<b>24,654</b>	<b>6,574</b>
Net debt/(cash)	4,384	(3,644)	(81,834)	(21,823)	24,654	6,574
Total equity	735,346	826,314	1,028,435	274,249	1,024,127	273,100
<b>Net debt/(cash) and total equity</b>	<b>739,730</b>	<b>822,670</b>	<b>946,601</b>	<b>252,426</b>	<b>1,048,781</b>	<b>279,674</b>
<b>Gearing</b>	<b>0.6%</b>	<b>(0.4)%</b>	<b>(8.6)%</b>	<b>(8.6)%</b>	<b>2.4%</b>	<b>2.4%</b>

Source: Financial Statements and Company.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

#### 7.4.5 Return on Average Capital Employed (ROACE)

ROACE measures the efficiency of the Company's utilisation of capital. The Company defines ROACE as net income before finance costs, net of tax, for a period as a percentage of average capital employed during that period. Average capital employed is the average of the Company's total borrowings plus total equity at the beginning and end of the applicable period. The Company utilises ROACE to evaluate management's performance and demonstrate to its shareholder that capital has been used effectively.

The following table sets forth the Company's ROACE for the years ended 31 December 2016G, 2017G and 2018G and the twelve months ended 30 June 2018G and 2019G.

**Table 43: ROACE and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the twelve months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Twelve Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions, except percentages)						
Net income	49,721	284,619	416,518	111,071	356,603	393,566	104,951
Finance costs, net of tax	203	1,045	1,480	395	1,320	2,175	580
<b>Net income before finance costs, net of tax</b>	<b>49,924</b>	<b>285,664</b>	<b>417,998</b>	<b>111,466</b>	<b>357,923</b>	<b>395,741</b>	<b>105,531</b>
<b>As at period start:</b>							
Current borrowings	6,934	8,982	8,906	2,375	9,769	27,735	7,396
Non-current borrowings	30,431	43,477	68,692	18,318	66,154	63,696	16,986
Total equity	698,446	735,346	826,314	220,350	771,026	908,341	242,224
Capital employed	735,811	787,805	903,912	241,043	846,949	999,772	266,606
<b>As at period end:</b>							
Current borrowings	8,982	8,906	29,989	7,997	27,735	38,407	10,242
Non-current borrowings	43,477	68,692	71,329	19,021	63,696	134,472	35,859
Total equity	735,346	826,314	1,028,435	274,249	908,341	1,024,127	273,100
Capital employed	787,805	903,912	1,129,753	301,267	999,772	1,197,006	319,201
<b>Average capital employed</b>	<b>761,808</b>	<b>845,859</b>	<b>1,016,833</b>	<b>271,155</b>	<b>923,361</b>	<b>1,098,389</b>	<b>292,904</b>
<b>ROACE</b>	<b>6.6%</b>	<b>33.8%</b>	<b>41.1%</b>	<b>41.1%</b>	<b>38.8%</b>	<b>36.0%</b>	<b>36.0%</b>

Source: Financial Statements and Company.

#### 7.4.6 EBIT and EBITDA

The Company defines EBIT as net income plus finance costs and income taxes, less finance income. The Company defines EBITDA as EBIT, plus depreciation and amortisation and impairments. The Company believes EBIT and EBITDA provide useful information regarding its financial performance to analysts and investors.

The following table sets forth the Company's EBIT and EBITDA for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 44: EBIT and EBITDA and reconciliation for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Net income	49,721	284,619	416,518	111,071	198,820	175,871	46,899
Finance income	(833)	(1,179)	(2,840)	(757)	(996)	(2,714)	(724)
Finance costs	1,354	2,090	2,959	789	1,387	2,779	741
Income taxes	255,255	296,819	381,378	101,701	180,779	170,963	45,590
<b>EBIT</b>	<b>305,497</b>	<b>582,349</b>	<b>798,015</b>	<b>212,804</b>	<b>379,990</b>	<b>346,899</b>	<b>92,506</b>
Depreciation and amortisation	33,615	36,894	41,334	11,023	19,763	24,297	6,479
Impairments	13,646	281	—	—	—	—	—
<b>EBITDA</b>	<b>352,758</b>	<b>619,524</b>	<b>839,349</b>	<b>223,827</b>	<b>399,753</b>	<b>371,196</b>	<b>98,985</b>

Source: Financial Statements and Company.

## 7.5 Results of Operations—Income Statement

The following table sets forth the Company's income statement for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 45: Income statement for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Revenue <sup>(1)</sup>	504,596	835,983 <sup>(2)</sup>	1,182,137	315,236	557,870	550,720	146,859
Other income related to sales <sup>(3)</sup>	—	150,176	152,641	40,704	70,916	63,836	17,023
<b>Revenue and other income related to sales</b>	<b>504,596</b>	<b>986,159<sup>(2)</sup></b>	<b>1,334,778</b>	<b>355,940</b>	<b>628,786</b>	<b>614,556</b>	<b>163,882</b>
Production royalties and excise and other taxes <sup>(1)</sup>	—	(136,393) <sup>(2)</sup>	(208,505)	(55,601)	(95,827)	(94,158)	(25,109)
Purchases	(53,231)	(120,398) <sup>(4)</sup>	(188,937)	(50,383)	(88,189)	(97,312)	(25,950)
Producing and manufacturing	(48,369)	(64,045) <sup>(4)</sup>	(56,202)	(14,987)	(24,323)	(29,512) <sup>(5)</sup>	(7,870) <sup>(5)</sup>
Selling, administrative and general	(37,051)	(29,606) <sup>(4)</sup>	(31,250)	(8,333)	(15,856)	(16,922) <sup>(5)</sup>	(4,512) <sup>(5)</sup>
Exploration	(11,087)	(13,725)	(7,928)	(2,114)	(4,225)	(3,527)	(941)
Research and development	(1,897)	(1,902)	(2,217)	(591)	(1,035)	(951)	(254)
Depreciation and amortisation	(33,615)	(36,894)	(41,334)	(11,023)	(19,763)	(24,297) <sup>(5)</sup>	(6,479) <sup>(5)</sup>
Impairments <sup>(6)</sup>	(13,646)	(281)	—	—	—	—	—
<b>Operating costs</b>	<b>(198,896)</b>	<b>(403,244)<sup>(2)</sup></b>	<b>(536,373)</b>	<b>(143,032)</b>	<b>(249,218)</b>	<b>(266,679)</b>	<b>(71,115)</b>
<b>Operating income</b>	<b>305,700</b>	<b>582,915</b>	<b>798,405</b>	<b>212,908</b>	<b>379,568</b>	<b>347,877</b>	<b>92,767</b>
Share of results from joint ventures and associates	(979)	(956)	(1,415)	(377)	314	(1,432)	(382)
Finance and other income	1,609	1,569	3,865	1,030	1,104	3,168	845
Finance costs	(1,354)	(2,090)	(2,959)	(789)	(1,387)	(2,779) <sup>(5)</sup>	(741) <sup>(5)</sup>
<b>Income before income taxes</b>	<b>304,976</b>	<b>581,438</b>	<b>797,896</b>	<b>212,772</b>	<b>379,599</b>	<b>346,834</b>	<b>92,489</b>
Income taxes <sup>(7)</sup>	(255,255)	(296,819)	(381,378)	(101,701)	(180,779)	(170,963)	(45,590)
<b>Net income</b>	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>198,820</b>	<b>175,871</b>	<b>46,899</b>
<b>Net income attributable to:</b>							
Shareholder's equity	48,349	283,198	416,196	110,985	198,361	176,017	46,938
Non-controlling interests	1,372	1,421	322	86	459	(146)	(39)
	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>198,820</b>	<b>175,871</b>	<b>46,899</b>

Source: Financial Statements.

- (1) Prior to 2017G, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017G, royalties attributable to the production of crude oil and condensate, natural gas and NGLs are accounted for as an expense, rather than a deduction from revenue. See Sections 7.3.6 (*Fiscal Regime Changes*) and 4.14.2 (*The Concession*).
- (2) The Company adopted IFRS 15 on 1 January 2018G. As a result, in the preparation of its 2018G Financial Statements, the Company reclassified certain 2017G results that appear in the 2017G comparative column of the 2018G Financial Statements. See page F-18.
- (3) The Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. From 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for revenues directly forgone as a result of the Company's compliance with the Government mandates related to crude oil and certain refined products. See Section 7.3.6 (*Fiscal Regime Changes*).
- (4) Purchases, producing and manufacturing costs and selling, administrative and general costs for 2017G do not reflect the reclassification of SAR 1.4 billion of producing and manufacturing costs reclassified to selling, administrative and general expenses and SAR 5.7 billion of producing and manufacturing costs reclassified to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016G.
- (5) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.
- (6) The Company recognised an impairment of SAR 13,646 million for the year ended 31 December 2016G primarily related to the Jazan integrated petrochemical refinery under construction and two existing domestic refineries.
- (7) As at 1 January 2017G, the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50%, except that effective from 1 January 2018G, a 20% tax rate applies to Saudi Arabian Oil Company's taxable income related to certain natural gas activities. See Section 7.3.6 (*Fiscal Regime Changes*).

### 7.5.1 Revenue and Other Income Related to Sales

For the years ended 31 December 2016G and 2017G, the Company's revenue and other income related to sales was SAR 504.6 billion and SAR 986.2 billion, respectively. This 95% increase was primarily attributable to an increase in average realised price per barrel of crude oil sold at prevailing market prices from \$40.7 to \$52.7 as well as the price equalisation mechanism introduced by the Government effective from 1 January 2017G,

resulting in other income related to sales of SAR 150.2 billion for the year ended 31 December 2017G. The volume of crude oil produced by the Company decreased from 10.6 million barrels per day in 2016G to 10.1 million barrels per day in 2017G. Also contributing to the increase in revenue and other income related to sales were the following:

- revenue from international sales of crude oil increased from SAR 431.7 billion to SAR 526.3 billion, or by 22%, for the years ended 31 December 2016G and 2017G, respectively, despite a decrease in the total volume of international sales of crude oil from 2016G to 2017G by approximately 429,000 barrels per day, or 6%, following the Kingdom's decision to require the Company to produce fewer barrels per day of crude oil in 2017G as well as due to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G with export sales of crude oil to Motiva eliminated in consolidation from that date; and
- revenue from export sales of refined products increased from SAR 103.1 billion to SAR 218.3 billion, or by 112%, for the years ended 31 December 2016G and 2017G, respectively.

In addition, revenue and other income related to sales in 2017G increased from 2016G because from 1 January 2017G royalties payable to the Government were no longer accounted for as a deduction from revenue. The Company did not record any other income related to sales for the year ended 31 December 2016G as the price equalisation mechanism introduced by the Government was effective from 1 January 2017G. In 2017G, the Company recorded other income related to sales of SAR 150.2 billion. See Section 7.3.6 (*Fiscal Regime Changes*).

Revenue and other income related to sales increased from SAR 986.2 billion to SAR 1,334.8 billion (\$355.9 billion), or 35%, for the years ended 31 December 2017G and 2018G, respectively. This increase was primarily attributable to an increase in the average realised price per barrel of crude oil sold at prevailing market prices from \$52.7 to \$70.0, the full year impact of consolidating Motiva's results of operations, as well as an increase in other income related to sales. The volume of crude oil produced by the Company increased to 10.3 million barrels per day in 2018G from 10.1 million barrels per day in 2017G.

For the six months ended 30 June 2018G and 2019G, the Company's revenue and other income related to sales was SAR 628.8 billion and SAR 614.6 billion (\$163.9 billion), respectively. This 2% decrease was primarily attributable to a decrease in the average realised price per barrel of crude oil sold at prevailing market prices from \$69.0 for the six months ended 30 June 2018G to \$66.3 for the six months ended 30 June 2019G as well as a decrease in other income related to sales, partially offset by an increase in crude oil sales volumes. The volume of crude oil produced by the Company was stable at 10.0 million barrels per day for the six months ended 30 June 2018G and 2019G.

#### 7.5.1.1 *Revenue and Other Income Related to Sales by Segment*

The Company's upstream operations are based in the Kingdom and it also operates a global downstream business. Its primary operating segments are the upstream segment and the downstream segment, which are supported by the corporate segment.

The majority of the Company's revenues have historically been derived from its upstream segment. The following table highlights the Company's revenue and other income related to sales by business segment for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G, excluding inter-segment revenue.

**Table 46: Revenue and other income related to sales by business segment for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December								Six Months Ended 30 June					
	2016G		2017G		2018G		2018G		2018G		2019G		2019G	
	SAR		SAR		SAR		U.S.\$		SAR		SAR		U.S.\$	
	(in millions, except percentages)													
<b>Revenue</b>														
Upstream .....	360,963	72%	574,131	69%	776,233	66%	206,995	66%	364,634	65%	356,528	65%	95,074	65%
Downstream .....	142,550	28%	260,642	31%	404,575	34%	107,887	34%	192,688	35%	193,655	35%	51,641	35%
Corporate .....	1,083	—	1,210	—	1,329	—	354	—	548	—	537	—	143	—
<b>Total .....</b>	<b>504,596</b>	<b>100%</b>	<b>835,983</b>	<b>100%</b>	<b>1,182,137</b>	<b>100%</b>	<b>315,237</b>	<b>100%</b>	<b>557,870</b>	<b>100%</b>	<b>550,720</b>	<b>100%</b>	<b>146,859</b>	<b>100%</b>
<b>Other income related to sales</b>														
Upstream .....	— <sup>(1)</sup>	—	29,121	19%	37,189	24%	9,917	24%	16,644	23%	15,170	24%	4,045	24%
Downstream .....	— <sup>(1)</sup>	—	121,055	81%	115,452	76%	30,787	76%	54,272	77%	48,666	76%	12,978	76%
Corporate .....	— <sup>(1)</sup>	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total .....</b>	<b>—<sup>(1)</sup></b>	<b>—</b>	<b>150,176</b>	<b>100%</b>	<b>152,641</b>	<b>100%</b>	<b>40,704</b>	<b>100%</b>	<b>70,916</b>	<b>100%</b>	<b>63,836</b>	<b>100%</b>	<b>17,023</b>	<b>100%</b>
<b>Revenue and other income related to sales</b>														
Upstream <sup>(2)</sup> .....	360,963	72%	603,252	61%	813,422	61%	216,913	61%	381,278	61%	371,698	60%	99,119	60%
Downstream .....	142,550	28%	381,697	39%	520,027	39%	138,674	39%	246,960	39%	242,321	40%	64,619	40%
Corporate .....	1,083	—	1,210	—	1,329	—	354	—	548	—	537	—	143	—
<b>Total .....</b>	<b>504,596</b>	<b>100%</b>	<b>986,159</b>	<b>100%</b>	<b>1,334,778</b>	<b>100%</b>	<b>355,941</b>	<b>100%</b>	<b>628,786</b>	<b>100%</b>	<b>614,556</b>	<b>100%</b>	<b>163,882</b>	<b>100%</b>

Source: Financial Statements and Company.

- (1) The Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. From 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for revenues directly forgone as a result of the Company's compliance with the Government mandates related to crude oil and certain refined products. See Section 7.3.6 (*Fiscal Regime Changes*).
- (2) Prior to 2017G, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017G, royalties attributable to the production of crude oil and condensate, natural gas and NGLs are accounted for as an expense, rather than as a deduction from revenue. See Sections 7.3.6 (*Fiscal Regime Changes*) and 13.5.1 (*The Concession*).

#### (a) Upstream

For the years ended 31 December 2016G and 2017G, the upstream segment's external revenue was SAR 361.0 billion and SAR 574.1 billion, respectively. This 59% increase was primarily due to an increase in average realised sales price per barrel of crude oil from \$40.7 to \$52.8, or 30%, and the change in accounting for royalties as a result of fiscal regime changes, partially offset by a decrease in the total volume of crude oil exports from 2016G to 2017G by approximately 312,000 barrels per day, or 4%. The Company did not record any other income related to sales for the year ended 31 December 2016G. For the years ended 31 December 2017G and 2018G, the upstream segment's external revenue was SAR 574.1 billion and SAR 776.2 billion (\$207.0 billion), respectively. This 35% increase was primarily due to an increase in average realised sales price per barrel of crude oil from \$52.8 to \$70.1, or 33%. For the years ended 31 December 2017G and 2018G, the upstream segment's other income related to sales was SAR 29.1 billion and SAR 37.2 billion (\$9.9 billion), respectively. This 28% increase was primarily due to an increase in the equalisation price for crude oil. For the six months ended 30 June 2018G and 2019G, the upstream segment's external revenue was SAR 364.6 billion and SAR 356.5 billion (\$95.1 billion), respectively. This 2% decrease was primarily due to a decrease in average realised sales price per barrel of crude oil from \$69.2 to \$66.1, or 4%, which was partially offset by a 2% increase in crude oil sales volumes at prevailing market prices, which was a result of a decrease in intercompany deliveries to international refining affiliates and corresponding increase in sales to third parties. For the six months ended 30 June 2018G and 2019G, the upstream segment's other income related to sales was SAR 16.6 billion and SAR 15.2 billion (\$4.0 billion), respectively. This 9% decrease was primarily due to a 5% decrease in in-Kingdom crude oil sales volumes at domestic regulated prices and a decrease in the reference equalisation price for crude oil. See Section 7.5.1 (*Revenue and Other Income Related to Sales*).

#### (b) Downstream

For the years ended 31 December 2016G and 2017G, the downstream segment's external revenue was SAR 142.6 billion and SAR 260.6 billion, respectively. This 83% increase was primarily due to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G and an increase in average realised prices for downstream products. The Company did not record any other income related to sales for the year ended 31 December 2016G. For the years ended 31 December 2017G and 2018G, the downstream

segment's external revenue was SAR 260.6 billion and SAR 404.6 billion (\$107.9 billion), respectively. This 55% increase was primarily due to an increase in average refined product prices, consolidation of Motiva's results in the Company's financial statements for the full year in 2018G and the absence of the impact from Hurricane Harvey, which negatively affected the downstream segment's results in 2017G. For the years ended 31 December 2017G and 2018G, the downstream segment's other income related to sales was SAR 121.1 billion and SAR 115.5 billion (\$30.8 billion), respectively. This 5% decrease was primarily due to a decrease in volumes of refined products sold in the Kingdom by 9%. For the six months ended 30 June 2018G and 2019G, the downstream segment's external revenue was SAR 192.7 billion and SAR 193.7 billion (\$51.6 billion), respectively. This 1% increase was primarily due to an increase in international crude sales reported in the downstream segment attributed to ATC and Motiva, in addition to the consolidation of ARLANXEO's results of operations into the Company's financial statements from 31 December 2018G. These increases were partially offset by a reduction in the average price of refined products. For the six months ended 30 June 2018G and 2019G, the downstream segment's other income related to sales was SAR 54.3 billion and SAR 48.7 billion (\$13.0 billion), respectively. This 10% decrease was primarily due to a decrease in the equalisation prices for refined products.

**(c) Corporate**

For the years ended 31 December 2016G, 2017G and 2018G, the Corporate segment's external revenue was SAR 1,083 million, SAR 1,210 million and SAR 1,329 million (\$354 million), respectively. For the six months ended 30 June 2018G and 2019G, the Corporate segment's external revenue was SAR 548 million and SAR 537 million (\$143 million), respectively. The corporate segment primarily supports the upstream segment's and downstream segment's activities and has limited external activities.

**7.5.1.2 Other Income Related to Sales**

Other income related to sales reflects the equalisation payments received from the Government to compensate the Company for the difference between the equalisation prices and the regulated prices for the sales of certain hydrocarbon products within the Kingdom. See Section 7.3.6 (*Fiscal Regime Changes*).

The Company did not record any other income related to sales for the year ended 31 December 2016G. For the years ended 31 December 2017G and 2018G, the Company's other income related to sales was SAR 150.2 billion and SAR 152.6 billion (\$40.7 billion), respectively. For the six months ended 30 June 2018G and 2019G, the Company's other income related to sales was SAR 70.9 billion and SAR 63.8 billion (\$17.0 billion), respectively. See Section 7.3.6 (*Fiscal Regime Changes*).

## 7.5.2 Operating costs

The following table sets forth the Company's operating costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 47: Operating costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Production royalties and excise and other taxes <sup>(1)</sup>	—	(136,393) <sup>(2)</sup>	(208,505)	(55,601)	(95,827)	(94,158)	(25,109)
Purchases	(53,231)	(120,398) <sup>(3)</sup>	(188,937)	(50,383)	(88,189)	(97,312)	(25,950)
Producing and manufacturing	(48,369)	(64,045) <sup>(3)</sup>	(56,202)	(14,987)	(24,323)	(29,512)	(7,870)
Selling, administrative and general	(37,051)	(29,606) <sup>(3)</sup>	(31,250)	(8,333)	(15,856)	(16,922)	(4,512)
Exploration	(11,087)	(13,725)	(7,928)	(2,114)	(4,225)	(3,527)	(941)
Research and development	(1,897)	(1,902)	(2,217)	(591)	(1,035)	(951)	(254)
Depreciation and amortisation	(33,615)	(36,894)	(41,334)	(11,023)	(19,763)	(24,297) <sup>(4)</sup>	(6,479) <sup>(4)</sup>
Impairments <sup>(5)</sup>	(13,646)	(281)	—	—	—	—	—
<b>Operating costs</b>	<b>(198,896)</b>	<b>(403,244)<sup>(2)</sup></b>	<b>(536,373)</b>	<b>(143,032)</b>	<b>(249,218)</b>	<b>(266,679)<sup>(4)</sup></b>	<b>(71,115)<sup>(4)</sup></b>

Source: Financial Statements.

- (1) Prior to 2017G, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017G, royalties attributable to the production of crude oil and condensate, natural gas and NGLs are accounted for as an expense, rather than a deduction from revenue. See Sections 7.3.6 (*Fiscal Regime Changes*) and 4.14.2 (*The Concession*).
- (2) The Company adopted IFRS 15 on 1 January 2018G. As a result, in the preparation of its 2018G Financial Statements, the Company reclassified certain 2017G results that appear in the 2017G comparative column of the 2018G Financial Statements. See page F-18.
- (3) Purchases, producing and manufacturing costs and selling, administrative and general costs for 2017G do not reflect the reclassification of SAR 1.4 billion of producing and manufacturing costs reclassified to selling, administrative and general expenses and SAR 5.7 billion of producing and manufacturing costs reclassified to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016G.
- (4) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.
- (5) The Company recognised an impairment of SAR 13,646 million for the year ended 31 December 2016G primarily related to the Jazan integrated petrochemical refinery under construction and two existing domestic refineries.

### 7.5.2.1 Production Royalties and Excise and Other Taxes

Production royalties and excise and other taxes consist of the royalties attributable to the production of crude oil and condensate, natural gas and NGLs. The Company did not record any production royalties and excise and other taxes as an expense item for the year ended 31 December 2016G as the new production-based royalty introduced by the Government was effective from 1 January 2017G. In 2016G, the Company deducted from its revenue SAR 101.3 billion of royalties payable to the Government. For the years ended 31 December 2017G and 2018G, the Company recorded production royalties and excise and other taxes of SAR 136.4 billion and SAR 208.5 billion (\$55.6 billion). This 53% increase was primarily due to the impact of a higher applicable royalty rate applied to the Company's crude oil production after Brent prices increased to over \$70 per barrel for a large part of 2018G, increasing the marginal royalty rate from 20% to 40% during such periods. This increase was also due to increased production volumes of crude oil in 2018G. For the six months ended 30 June 2018G and 2019G, the Company recorded production royalties and excise and other taxes of SAR 95.8 billion and SAR 94.2 billion (\$25.1 billion). This 2% decrease was primarily due to a decline in Brent prices, which remained below \$70 per barrel for a majority of the six months ended 30 June 2019G. The effective production royalty rate on crude oil production declined from 20.7% in the six months ended 30 June 2018G to 20.1% in the six months ended 30 June 2019G. See Section 7.3.6 (*Fiscal Regime Changes*) for a description of the changes to the royalty regime and Section 13.5.1 (*The Concession*) for a description of royalties payable to the Government.

### 7.5.2.2 Purchases

Purchases primarily consist of refined products, chemicals and crude oil purchased from third parties for use in the Company's downstream operations and to meet demand for products in the Kingdom when it exceeds the



Company's production of the relevant product. The Company also purchases products from third parties when it is cost effective. For example, various downstream operations from time to time purchase crude oil from third parties to use as a feedstock. Purchases also include ATC's procurement of refined products and chemicals as part of its trading operations and from 1 May 2017G, purchases by Motiva under its buying and selling arrangements and for its trading operations. The Company expects that, once fully operational, the Jazan integrated petrochemical refinery, as well as capacity increases at SATORP and YASREF, will produce more quantities of downstream products to meet in-Kingdom demand.

The Company made purchases of SAR 53.2 billion and SAR 120.4 billion for the years ended 31 December 2016G and 2017G, respectively. This 126% increase was primarily attributable to an increase in purchases of crude oil and refined products resulting from the consolidation of Motiva into the Company's financial statements from 1 May 2017G, which accounted for SAR 48.6 billion of purchases by the Company. Purchases by ATC increased from SAR 30.2 billion for the year ended 31 December 2016G to SAR 41.7 billion for the year ended 31 December 2017G, which was primarily due to an increase in prevailing market prices of refined products and an increase in volumes purchased. As a percentage of revenue and other income related to sales, the Company's purchases increased from 11% for the year ended 31 December 2016G to 12% for the year ended 31 December 2017G.

The Company made purchases of SAR 120.4 billion and SAR 188.9 billion (\$50.4 billion) for the years ended 31 December 2017G and 2018G, respectively. This increase of SAR 68.5 billion, or 57%, was primarily attributable to increased purchases of volumes of crude oil and refined products and the consolidation of Motiva's full-year results, as well as an increase in the prevailing market prices for those products. Purchases by ATC increased from SAR 41.7 billion for the year ended 31 December 2017G to SAR 66.9 billion for the year ended 31 December 2018G, which was primarily due to an increase in prevailing market prices of refined products and an increase in volumes purchased. In addition, purchases for the year ended 31 December 2018G increased over purchases for the year ended 31 December 2017G due to a reclassification of SAR 8.5 billion of purchases of refined products by S-Oil from producing and manufacturing costs to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements. As a percentage of revenue and other income related to sales, the Company's purchases increased from 12% for the year ended 31 December 2017G to 14% for the year ended 31 December 2018G.

For the six months ended 30 June 2018G and 2019G, the Company made purchases of SAR 88.2 billion and SAR 97.3 billion (\$26.0 billion), respectively. This 10% increase was primarily attributable to an increase in purchase volumes of crude oil from third parties by Motiva and ATC, which was partially offset by a decline in prevailing market prices of crude oil and refined products. Purchases by ATC increased from SAR 29.3 billion for the six months ended 30 June 2018G to SAR 33.6 billion (\$9.0 billion) for the six months ended 30 June 2019G, which was primarily due to an increase in purchase volumes of crude oil, partially offset by a decline in purchase volumes of refined products as well as a decline in prevailing market prices for those products. As a percentage of revenue and other income related to sales, purchases by the Company increased from 14% for the six months ended 30 June 2018G to 16% for the six months ended 30 June 2019G.

The following table sets forth the Company's purchases for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 48: Purchases for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G <sup>(1)</sup>	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(millions)						
Refined products	(47,940)	(92,999)	(145,074)	(38,686)	(69,597)	(62,380)	(16,635)
Crude oil	(3,131)	(24,823)	(41,131)	(10,968)	(17,046)	(32,545)	(8,679)
Chemicals	(2,024)	(2,282)	(2,333)	(622)	(1,428)	(2,005)	(535)
Sulphur and NGLs	(135)	(293)	(399)	(106)	(118)	(382)	(102)

Source: Company.

(1) Purchases for 2017G do not reflect the reclassification of SAR 5.7 billion of producing and manufacturing costs reclassified to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016G.

### 7.5.2.3 *Producing and Manufacturing*

Producing and manufacturing costs consist primarily of the operating expenses related to producing hydrocarbons and refined products. Producing and manufacturing costs also include the upstream segment's and downstream segment's support services expenses, including engineering and operational services. In addition, producing and manufacturing costs include labour and employee-related expenses directly related to producing the Company's products.

Producing and manufacturing expenses were SAR 48.4 billion and SAR 64.0 billion for the years ended 31 December 2016G and 2017G, respectively. This 32% increase was primarily due to the consolidation of Motiva into the Company's financial statements from 1 May 2017G.

Producing and manufacturing expenses were SAR 64.0 billion and SAR 56.2 billion (\$15.0 billion), for the years ended 31 December 2017G and 2018G, respectively. This 12% decrease was primarily due to a reclassification of certain producing and manufacturing costs to (i) selling, administrative and general expenses and (ii) purchases. As a percentage of revenue and other income related to sales, the Company's producing and manufacturing expenses decreased from 6% for the year ended 31 December 2017G to 4% for the year ended 31 December 2018G. Producing and manufacturing expenses for 2017G do not reflect the reclassification of SAR 1.4 billion of producing and manufacturing expenses reclassified to selling, administrative and general expenses and SAR 5.7 billion of producing and manufacturing expenses reclassified to purchases that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements.

For the six months ended 30 June 2018G and 2019G, the Company incurred producing and manufacturing expenses of SAR 24.3 billion and SAR 29.5 billion (\$7.9 billion), respectively. This 21% increase was primarily due to the impact of results of ARLANXEO being consolidated into the Company's financial statements from 31 December 2018G. As a percentage of revenue and other income related to sales, the Company's producing and manufacturing expenses increased from 4% for the six months ended 30 June 2018G to 5% for the six months ended 30 June 2019G.

### 7.5.2.4 *Selling, Administrative and General*

Selling, administrative and general expenses consist of costs related to supporting the operations and services of the Company and certain other expenses. Costs related to supporting the operations and services of the Company include:

- pipeline, distribution and terminal expenses;
- selling and administrative expenses; and
- corporate, support and administrative services (such as human resources, finance, corporate affairs and legal) and expenses related to the Company's employee home ownership programme.

Other expenses included in selling, administrative and general expenses consist of:

- freight and storage expenses; and
- costs related to corporate citizenship projects and initiatives.

The Company incurred selling, administrative and general expenses of SAR 37.1 billion and SAR 29.6 billion for the years ended 31 December 2016G and 2017G, respectively. This 20% decrease was primarily due to a decrease in labour costs due to the retirement of certain senior employees and reduction in the number of expatriate employees.

For the years ended 31 December 2017G and 2018G, the Company incurred selling, administrative and general expenses of SAR 29.6 billion and SAR 31.3 billion (\$8.3 billion), respectively. This 6% increase was primarily due to an increase in freight and storage expenses incurred by ATC. Selling, administrative and general costs for 2017G do not reflect the reclassification of SAR 1.4 billion of producing and manufacturing expenses reclassified to selling, administrative and general expenses that were made to the 2017G comparative amounts reflected in the 2018G Financial Statements.

For the six months ended 30 June 2018G and 2019G, the Company incurred selling, administrative and general expenses of SAR 15.9 billion and SAR 16.9 billion (\$4.5 billion), respectively. This 7% increase was primarily due to the impact of the results of operations of ARLANXEO being consolidated into the Company's financial statements from 31 December 2018G as well as an increase in corporate social citizenship project costs, partially

offset by a decline in operating lease costs due to the reclassification of such costs to depreciation and amortisation and finance costs following the adoption of IFRS 16.

#### 7.5.2.5 *Exploration*

Exploration expenses consist of costs for the evaluation of subsurface geological areas for hydrocarbon resources, including geological and geophysical surveys, and write-offs related to unsuccessful exploratory wells.

For the years ended 31 December 2016G and 2017G, the Company incurred exploration expenses of SAR 11.1 billion and SAR 13.7 billion, respectively. This 24% increase was primarily attributable to an increase in write-offs of dry-hole costs related to gas exploration activities.

For the years ended 31 December 2017G and 2018G, the Company incurred exploration expenses of SAR 13.7 billion and SAR 7.9 billion (\$2.1 billion), respectively. This decrease was primarily due to lower write-offs of dry-hole costs related to gas exploration activities in 2018G.

For the six months ended 30 June 2018G and 2019G, the Company incurred exploration expenses of SAR 4.2 billion and SAR 3.5 billion (\$0.9 billion), respectively. This decrease was primarily due to lower geological and geophysical survey costs during the six months ended 30 June 2019G.

#### 7.5.2.6 *Research and Development*

Research and development expenses consist of costs incurred to research new technologies. If development costs are expected to generate probable future economic benefits, they are capitalised as intangible assets.

For the years ended 31 December 2016G and 2017G, the Company incurred research and development expenses of SAR 1,897 million and SAR 1,902 million, respectively.

For the years ended 31 December 2017G and 2018G, the Company incurred research and development expenses of SAR 1,902 million and SAR 2,217 million (\$591 million), respectively.

For the six months ended 30 June 2018G and 2019G, the Company incurred research and development expenses of SAR 1,035 million and SAR 951 million (\$254 million), respectively.

#### 7.5.2.7 *Depreciation and Amortisation*

Depreciation is attributable to property, plant and equipment. Amortisation is attributable to capitalised costs, which are intangible assets and thus amortised rather than depreciated.

For the years ended 31 December 2016G and 2017G, depreciation and amortisation expenses increased from SAR 33.6 billion to SAR 36.9 billion, respectively. This 10% increase was primarily attributable to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G.

Depreciation and amortisation expense increased from SAR 36.9 billion to SAR 41.3 billion (\$11.0 billion) for the years ended 31 December 2017G and 2018G. This 12% increase was primarily attributable to an increase in capitalised costs related to upstream projects that were completed in 2018G. See Section 7.12.4 (*Property, Plant and Equipment*).

For the six months ended 30 June 2018G and 2019G, the Company incurred depreciation and amortisation expenses of SAR 19.8 billion and SAR 24.3 billion (\$6.5 billion), respectively. This 23% increase was primarily attributable to depreciation incurred on additional assets capitalised in the period, the consolidation of ARLANXEO's results of operations into the Company's financial statements from 31 December 2018G and the adoption of IFRS 16, which resulted in right of use assets being recognised on the balance sheet and therefore subject to depreciation.

#### 7.5.2.8 *Impairments*

The Company recognised an impairment of SAR 13.6 billion for the year ended 31 December 2016G primarily attributable to an assessment that the future recoverable amount of the refinery component of the under-construction Jazan integrated petrochemical facility was less than the carrying value of that asset.

### 7.5.3 *Net Income*

The following table sets forth the Company's net income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 49: Net income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Operating income .....	305,700	582,915	798,405	212,908	379,568	347,877	92,767
Share of results from joint ventures and associates .....	(979)	(956)	(1,415)	(377)	314	(1,432)	(382)
Finance and other income .....	1,609	1,569	3,865	1,030	1,104	3,168	845
Finance costs .....	(1,354)	(2,090)	(2,959)	(789)	(1,387)	(2,779)	(741)
Income before income taxes .....	304,976	581,438	797,896	212,772	379,599	346,834	92,489
Income taxes <sup>(1)</sup> .....	(255,255)	(296,819)	(381,378)	(101,701)	(180,779)	(170,963)	(45,590)
<b>Net income .....</b>	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>198,820</b>	<b>175,871</b>	<b>46,899</b>

Source: Financial Statements.

(1) As at 1 January 2017G the income tax rate applicable to the Company was reduced from 85% to 50%, except that effective from 1 January 2018G, a 20% rate applies to the Company's taxable income related to natural gas investment minus expenses related to natural gas investment. See Section 7.3.6 (*Fiscal Regime Changes*).

### 7.5.3.1 Share of Results from Joint Ventures and Associates

Share of results from joint ventures and associates includes the Company's share of profit or loss related to entities that are accounted for using the equity method. A significant portion of the Company's downstream business is conducted through joint ventures and associate companies. As at 1 May 2017G, the Company completed a transaction to separate and transfer the assets, liabilities and businesses of its former Motiva joint venture with Shell and transferred certain assets and liabilities to a wholly owned subsidiary of the Company. This transaction led to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G instead of being accounted for using the equity method as in prior periods. For further information, see Sections 7.12.1.2 (*Joint Arrangements and Associates*) and 7.5.1.1(b) (*Downstream*).

The loss in the Company's share of results from joint ventures and associates was SAR 979 million and SAR 956 million for the years ended 31 December 2016G and 2017G, respectively. The decrease in loss was primarily due to improved financial performance at Sadara and Petro Rabigh, partially offset by lower earnings from Saudi National Shipping Company-Bahri and the share of Motiva's profits no longer being accounted for using the equity method from May 2017G.

The loss in the Company's share of results from joint ventures and associates was SAR 956 million and SAR 1,415 million (\$377 million) for the years ended 31 December 2017G and 2018G, respectively. The increase in loss was primarily due to the full year impact of the share of Motiva's profits no longer being accounted for using the equity method and lower earnings from FREP, partially offset by improved financial performance at Sadara and Petro Rabigh.

The Company had a SAR 314 million gain in its share of results from joint ventures and associates and a loss of SAR 1,432 million (\$382 million) in its share of results from joint ventures and associates for the six months ended 30 June 2018G and 2019G, respectively. The increase in loss was primarily due to increased losses incurred by Sadara and lower earnings at Petro Rabigh, Marafiq and FREP.

### 7.5.3.2 Finance and Other Income

Finance and other income includes interest income, gains or losses on derivative transactions, dividend income, gains or losses on disposal of equity investments and insurance settlements.

For the years ended 31 December 2016G and 2017G, the Company had finance and other income of SAR 1,609 million and SAR 1,569 million, respectively.

For the years ended 31 December 2017G and 2018G, the Company had finance and other income of SAR 1,569 million and SAR 3,865 million (\$1,030 million), respectively. This increase was primarily attributable to an increase in interest income generated from time deposits and loans receivable and an

accounting gain of SAR 870 million following the de-recognition of the previous equity investment in ARLANXEO.

For the six months ended 30 June 2018G and 2019G, the Company had finance and other income of SAR 1,104 million and SAR 3,168 million (\$845 million), respectively. This 187% increase was primarily due to an increase in time deposits and short-term investments, which resulted in an increase in interest income.

#### 7.5.3.3 Financing Costs

Finance costs include interest expense incurred in connection with the Company's finance lease liabilities and bank borrowing liabilities, including its revolving credit facility agreement and Sukuk Programme.

For the years ended 31 December 2016G and 2017G, the Company incurred finance costs of SAR 1,354 million and SAR 2,090 million, respectively. This 54% increase was primarily due to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G as well as finance costs related to the Sukuk Programme and increased borrowing costs on bank borrowings by SATORP and YASREF.

For the years ended 31 December 2017G and 2018G, the Company incurred finance costs of SAR 2,090 million and SAR 2,959 million (\$789 million), respectively. This 42% increase was primarily due to the consolidation of Motiva's results of operations into the Company's financial statements for the full financial year as well as increased borrowing costs on certain bank borrowings, including additional project finance borrowings.

For the six months ended 30 June 2018G and 2019G, the Company incurred finance costs of SAR 1,387 million and SAR 2,779 million (\$741 million), respectively. This 100% increase was primarily due to additional interest incurred by the Company following the issuance of the Senior Unsecured Notes and the impact of additional interest expense being charged following the adoption of IFRS 16.

#### 7.5.3.4 Income Taxes

For the years ended 31 December 2016G and 2017G, the Company incurred an income tax of SAR 255.3 billion and SAR 296.8 billion, respectively, an increase of SAR 41.5 billion or 16%. This increase was primarily attributable to an increase in income, partially offset by the change in income tax rate applicable to the Company due to the fiscal regime changes. See Section 7.3.6 (*Fiscal Regime Changes*).

For the years ended 31 December 2017G and 2018G, the Company incurred an income tax of SAR 296.8 billion and SAR 381.4 billion (\$101.7 billion), respectively, an increase of SAR 84.6 billion, or 28%. This increase was primarily attributable to an increase in income, partially offset by the reduction in income tax rate attributable to certain of the Company's natural gas activities.

For the six months ended 30 June 2018G and 2019G, the Company incurred an income tax of SAR 180.8 billion and SAR 171.0 billion (\$45.6 billion), respectively. This 5% decrease was primarily attributable to a decrease in income.

The following table sets forth the Company's current and deferred income tax expense for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 50: Current and deferred income tax expense for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Current income tax—Kingdom	266,786	262,296	365,415	97,444	173,918	164,397	43,839
Current income tax—Foreign	1,395	1,415	349	93	458	176	47
Deferred income tax—Kingdom:							
Impact of change in income tax rates	—	10,579	(3,904)	(1,041)	(3,885)	—	—
Charge for the period	(13,586)	23,205	19,830	5,288	10,363	5,661	1,510
Deferred income tax—Foreign	660	(676)	(312)	(83)	(75)	729	194
<b>Income tax expense<sup>(1)</sup></b>	<b>255,255</b>	<b>296,819</b>	<b>381,378</b>	<b>101,701</b>	<b>180,779</b>	<b>170,963</b>	<b>45,590</b>

Source: Financial Statements.

(1) As at 1 January 2017G the income tax rate applicable to the Company was reduced from 85% to 50%, except that effective from 1 January 2018G, a 20% rate applies to the Company's taxable income related to natural gas investment minus expenses related to natural gas investment. See Section 7.3.6 (*Fiscal Regime Changes*).

### 7.5.3.5 Other Comprehensive Income

The following table sets forth the Company's total comprehensive income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 51: Total comprehensive income for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2019G	2019G	
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Net income . . . . .	49,721	284,619	416,518	111,071	198,820	175,871	46,899
Items that will not be reclassified to net income . . . . .	(1,062)	(11,711)	5,990	1,597	6,056	(4,524)	(1,207)
Items that may be reclassified subsequently to net income . . . . .	(138)	6,688	(2,119)	(565)	(2,116)	(1,670)	(445)
<b>Total comprehensive income . . . . .</b>	<b>48,521</b>	<b>279,596</b>	<b>420,389</b>	<b>112,103</b>	<b>202,760</b>	<b>169,677</b>	<b>45,247</b>

Source: Financial Statements.

Items that will not be reclassified to net income were SAR (1.1) billion and SAR (11.7) billion for the years ended 31 December 2016G and 2017G, respectively. This increased reduction in equity was primarily due to a SAR (15.5) billion impact of a change in the post-employment benefit deferred tax asset due to the new income tax rate in 2017G, partially offset by the impact of the remeasurement of post-employment benefit obligations. Items that will not be reclassified to net income were SAR (11.7) billion and SAR 6.0 billion for the years ended 31 December 2017G and 2018G, respectively. In the year ended 31 December 2018G, items that will not be reclassified to net income primarily comprised a remeasurement of post-employment benefit obligations of SAR 6.9 billion. For the six months ended 30 June 2018G and 2019G, the Company had items that will not be reclassified to net income of SAR 6.1 billion and SAR (4.5) billion, respectively. The change was primarily due to movements in the remeasurement of post-employment benefit obligations.

Items that may be reclassified subsequently to net income were SAR (0.1) billion and SAR 6.7 billion for the years ended 31 December 2016G and 2017G, respectively. This increase in equity in the year ended 31 December 2017G was primarily due to SAR 3.3 billion of currency translation differences and SAR 1.1 billion of fair value adjustments in respect of available-for-sale financial assets. Items that may be reclassified subsequently to net income were SAR 6.7 billion and SAR (2.1) billion ((\$1.0) billion) for the years ended 31 December 2017G and 2018G, respectively. This change was primarily due to changes in currency translation differences which totalled SAR (1.1) billion in the year ended 31 December 2018G as compared to SAR 3.3 billion in the year ended 31 December 2017G. For the six months ended 30 June 2018G and 2019G the Company had items that may be reclassified subsequently to net income of SAR (2.1) billion and SAR (1.7) billion (\$0.4) billion, respectively. The change was primarily due to the impact of changes in the fair value of debt securities and currency translation differences.

## 7.6 Financial Position—Balance Sheet

The following table sets forth the Company's balance sheet as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 52: Balance sheet as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Assets</b>						
<b>Non-current assets</b>						
Property, plant and equipment	635,366	751,134	873,827	233,021	929,496 <sup>(1)</sup>	247,866 <sup>(1)</sup>
Intangible assets	15,600	24,346	26,896	7,172	27,427	7,314
Investment in joint ventures and associates	43,500	27,273	22,579	6,021	22,614	6,030
Deferred income tax assets	64,508	13,606	9,866	2,631	10,713	2,857
Other assets and receivables	12,461	14,119	13,127	3,501	18,128	4,834
Investment in securities	17,464	18,872	17,214	4,590	18,855	5,028
<b>Total non-current assets</b>	<b>788,899</b>	<b>849,350</b>	<b>963,509</b>	<b>256,936</b>	<b>1,027,233</b>	<b>273,929</b>
<b>Current assets</b>						
Inventories	21,056	34,013	43,580	11,621	45,164	12,044
Trade receivables	65,258	86,892	93,818	25,018	100,178	26,714
Due from the Government	—	38,991	48,140	12,837	46,715	12,457
Other assets and receivables	4,879	5,881	13,775	3,673	11,464	3,057
Short-term investments	12,536	6,184	194	52	45,452	12,120
Cash and cash equivalents	48,075	81,242	183,152	48,841	148,225	39,527
<b>Total current assets</b>	<b>151,804</b>	<b>253,203</b>	<b>382,659</b>	<b>102,042</b>	<b>397,198</b>	<b>105,919</b>
<b>Total assets</b>	<b>940,703</b>	<b>1,102,553</b>	<b>1,346,168</b>	<b>358,978</b>	<b>1,424,431</b>	<b>379,848</b>
<b>Equity and liabilities</b>						
<b>Shareholder's equity</b>						
Share capital	—	—	60,000	16,000	60,000	16,000
Stated capital	60,000	60,000	—	—	—	—
Additional paid-in capital	26,981	26,981	26,981	7,195	26,981	7,195
Retained earnings:						
Unappropriated	631,481	715,107	920,625	245,500	918,011	244,803
Appropriated	6,000	6,000	6,000	1,600	6,000	1,600
Other reserves	128	5,670	3,176	847	1,959	522
<b>Shareholder's equity</b>	<b>724,590</b>	<b>813,758</b>	<b>1,016,782</b>	<b>271,142</b>	<b>1,012,951</b>	<b>270,120</b>
<b>Non-controlling interests</b>	<b>10,756</b>	<b>12,556</b>	<b>11,653</b>	<b>3,107</b>	<b>11,176</b>	<b>2,980</b>
<b>Total equity</b>	<b>735,346</b>	<b>826,314</b>	<b>1,028,435</b>	<b>274,249</b>	<b>1,024,127</b>	<b>273,100</b>
<b>Non-current liabilities</b>						
Borrowings	43,477	68,692	71,329	19,021	134,472 <sup>(1)</sup>	35,859 <sup>(1)</sup>
Deferred income tax liabilities	6,169	6,309	23,877	6,367	26,958	7,189
Post-employment benefit obligations	46,785	38,191	23,209	6,189	33,505	8,935
Provisions	9,398	13,997	15,606	4,162	16,519	4,405
<b>Total non-current liabilities</b>	<b>105,829</b>	<b>127,189</b>	<b>134,021</b>	<b>35,739</b>	<b>211,454</b>	<b>56,388</b>
<b>Current liabilities</b>						
Trade and other payables	52,139	62,055	72,286	19,276	68,279	18,208
Obligations to the Government:						
Income taxes	28,541	57,679	69,575	18,553	69,174	18,446
Royalties	9,866	20,410	11,862	3,164	12,990	3,464
Borrowings	8,982	8,906	29,989	7,997	38,407 <sup>(1)</sup>	10,242 <sup>(1)</sup>
<b>Total non-current liabilities</b>	<b>99,528</b>	<b>149,050</b>	<b>183,712</b>	<b>48,990</b>	<b>188,850</b>	<b>50,360</b>
<b>Total liabilities</b>	<b>205,357</b>	<b>276,239</b>	<b>317,733</b>	<b>84,729</b>	<b>400,304</b>	<b>106,748</b>
<b>Total equity and liabilities</b>	<b>940,703</b>	<b>1,102,553</b>	<b>1,346,168</b>	<b>358,978</b>	<b>1,424,431</b>	<b>379,848</b>

Source: Financial Statements.

- (1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts. The adoption of IFRS 16 had no impact on the Company's opening retained earnings as at 1 January 2019G and 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

### 7.6.1 Non-Current Assets

The following table sets forth the Company's non-current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 53: Non-current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Non-current assets</b>						
Property, plant and equipment . . . . .	635,366	751,134	873,827	233,021	929,496 <sup>(1)</sup>	247,866 <sup>(1)</sup>
Intangible assets . . . . .	15,600	24,346	26,896	7,172	27,427	7,314
Investment in joint ventures and associates . . . . .	43,500	27,273	22,579	6,021	22,614	6,030
Deferred income tax assets . . . . .	64,508	13,606	9,866	2,631	10,713	2,857
Other assets and receivables . . . . .	12,461	14,119	13,127	3,501	18,128	4,834
Investment in securities . . . . .	17,464	18,872	17,214	4,590	18,855	5,028
<b>Total non-current assets . . . . .</b>	<b>788,899</b>	<b>849,350</b>	<b>963,509</b>	<b>256,936</b>	<b>1,027,233</b>	<b>273,929</b>

Source: Financial Statements.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

#### 7.6.1.1 Property, Plant and Equipment

Property, plant and equipment includes crude oil facilities, refinery and petrochemical facilities, gas and NGL facilities, general service plant and construction in progress. As at 31 December 2016G and 2017G, the Company's property, plant and equipment increased from SAR 635.4 billion to SAR 751.1 billion, respectively, primarily due to ongoing capital projects at Jazan, upstream development projects to increase crude oil production at Khurais and Berri, as well as the completion of the Motiva transaction, resulting in the consolidation of Motiva's Port Arthur refinery and other assets into the Company's financial statements from 1 May 2017G. As at 31 December 2017G and 2018G, the Company's property, plant and equipment increased from SAR 751.1 billion to SAR 873.8 billion (\$233.0 billion), respectively, primarily due to capital expenditures and the consolidation of ARLANXEO and PRefChem into the Company's financial statements partially offset by additional accumulated depreciation. As at 30 June 2019G, the Company's property, plant and equipment increased from SAR 873.8 billion as at 31 December 2018G to SAR 929.5 billion (\$247.9 billion), primarily due to capital expenditures of SAR 54.3 billion and the recognition of right of use assets with a value of SAR 26.1 billion upon the adoption of IFRS 16, partially offset by additional accumulated depreciation. The following table sets forth the gross book value, accumulated depreciation and carrying amount of the Company's property, plant and equipment assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.



**Table 54: Gross book value, accumulated depreciation and carrying amount of the Company's property, plant and equipment assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Crude oil facilities .....	440,119	468,598	503,281	134,208	519,854	138,628
Refinery and petrochemical facilities .....	130,909	172,065	205,233	54,729	216,708	57,789
Gas and NGL facilities .....	306,225	329,480	361,141	96,305	374,159	99,776
General service plant .....	71,888	78,951	88,482	23,595	101,738	27,130
Construction in progress .....	155,321	206,248	257,607	68,695	280,956	74,922
<b>Gross book value .....</b>	<b>1,104,462</b>	<b>1,255,342</b>	<b>1,415,744</b>	<b>377,532</b>	<b>1,493,415</b>	<b>398,244</b>
Crude oil facilities .....	(222,824)	(237,729)	(253,544)	(67,612)	(261,437)	(69,717)
Refinery and petrochemical facilities .....	(58,988)	(67,323)	(74,438)	(19,850)	(79,136)	(21,103)
Gas and NGL facilities .....	(136,601)	(147,357)	(160,220)	(42,725)	(167,196)	(44,586)
General service plant .....	(50,683)	(51,799)	(53,715)	(14,324)	(56,150)	(14,973)
Construction in progress .....	—	—	—	—	—	—
<b>Accumulated depreciation .....</b>	<b>(469,096)</b>	<b>(504,208)</b>	<b>(541,917)</b>	<b>(144,511)</b>	<b>(563,919)</b>	<b>(150,378)</b>
Crude oil facilities .....	217,295	230,869	249,737	66,597	258,417	68,911
Refinery and petrochemical facilities .....	71,921	104,742	130,795	34,879	137,572	36,686
Gas and NGL facilities .....	169,624	182,123	200,921	53,579	206,963	55,190
General service plant .....	21,205	27,152	34,767	9,271	45,588	12,157
Construction in progress .....	155,321	206,248	257,607	68,695	280,956	74,922
<b>Net book value .....</b>	<b>635,366</b>	<b>751,134</b>	<b>873,827</b>	<b>233,021</b>	<b>929,496</b>	<b>247,866</b>

Source: Financial Statements.

#### 7.6.1.2 Intangible Assets

Intangible assets include capitalised exploration costs associated with exploratory wells, as well as brands and trademarks, computer software and customer relationships. As at 31 December 2016G and 2017G, the Company's intangible assets increased from SAR 15.6 billion to SAR 24.3 billion, respectively, primarily due to an increase in exploration and evaluation wells in 2017G, as well as the consolidation of Motiva into the Company's financial statements from 1 May 2017G, partially offset by write offs related to exploration and evaluation wells determined to be uneconomical. As at 31 December 2017G and 2018G, the Company's intangible assets increased from SAR 24.3 billion to SAR 26.9 billion (\$7.2 billion), respectively, primarily due to an increase in exploration activities. As at 30 June 2019G, the Company's intangible assets increased from SAR 26.9 billion as at 31 December 2018G to SAR 27.4 billion (\$7.3 billion), primarily due to continued exploration activities.

#### 7.6.1.3 Investment in Joint Ventures and Associates

Investment in joint ventures and associates includes the carrying amount of the Company's equity stakes in unconsolidated entities accounted for using the equity method. As at 31 December 2016G and 2017G, the Company's investment in joint ventures and associates decreased from SAR 43.5 billion to SAR 27.3 billion, respectively, primarily due to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017G, which had previously been accounted for using the equity method prior to the date of completing the acquisition of the remaining 50% stake. As at 31 December 2017G and 2018G, the Company's investment in joint ventures and associates decreased from SAR 27.3 billion to SAR 22.6 billion (\$6.0 billion), respectively, primarily due to the Company no longer recognising its interest in ARLANXEO as an investment upon its purchase of the 50% of ARLANXEO that it did not own, which was partially offset by additional investments in Sadara. As at 30 June 2019G, the Company's investment in joint ventures and associates remained flat from SAR 22.6 billion as at 31 December 2018G to SAR 22.6 billion (\$6.0 billion).

The following table sets forth an overview of the equity ownership and carrying value of the Company's investment in joint ventures and associates as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 55: Investment in joint ventures and associates as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	Ownership				Carrying value (SAR)			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2016G	2017G	2018G	2019G	2016G	2017G	2018G	2019G
	(in millions, except percentages)							
Sadara	65.0%	65.0%	65.0%	65.0%	9,866	11,729	11,660	11,432
Petro Rabigh	37.5%	37.5%	37.5%	37.5%	2,348	2,525	2,763	2,850
FREP	25.0%	25.0%	25.0%	25.0%	1,976	2,477	2,419	2,055
Saudi National Shipping Company-Bahri	20.0%	20.0%	20.0%	20.0%	2,265	2,120	2,129	2,064
Jubail and Yanbu Electricity and Water Utility Company	24.8%	24.8%	24.8%	24.8%	1,643	1,687	1,831	1,881
International Maritime Industries <sup>(1)</sup>	—	50.1%	50.1%	50.1%	—	146	425	400
Tashelat Marketing Company	—	—	—	50.0%	—	—	—	385
Saudi Arabian Industrial Investment Company	25.0%	25.0%	25.0%	25.0%	97	145	116	384
SSPC	22.5%	22.5%	22.5%	22.5%	428	471	401	339
Juniper Ventures LLC	—	—	60.0%	60.0%	—	—	331	332
First Coast Energy LLP	—	50.0%	50.0%	50.0%	—	298	263	230
S-Oil Total Lubricants Limited	50.0%	50.0%	50.0%	50.0%	142	156	147	136
GCC Electrical Equipment Testing Lab	20.0%	20.0%	20.0%	20.0%	19	67	63	59
Star Enterprises LLC	50.0%	50.0%	50.0%	50.0%	30	33	27	28
Silk Road	—	—	—	30.0%	—	—	—	23
Pan Arabian Program Management Company	—	—	50.0%	50.0%	—	—	4	8
Arabian Rig Manufacturing Company	—	—	—	30.0%	—	—	—	8
<b>Subtotal</b>					<b>18,814</b>	<b>21,854</b>	<b>22,579</b>	<b>22,614</b>
ARLANXEO	50.0%	50.0%	100.0%	100.0%	5,160	5,419	—	—
Motiva	50.0%	100.0%	100.0%	100.0%	19,526	—	—	—
<b>Investments in JVs and associates— balance sheet carrying value</b>					<b>43,500</b>	<b>27,273</b>	<b>22,579</b>	<b>22,614</b>

Source: Company.

(1) On 27 August 2019G, the Company agreed to sell 10% of its shareholding in International Maritime Industries.

For further information, see Note 7 to the 2018G Financial Statements included elsewhere in this Prospectus and Note 7 to the 2017G Financial Statements included elsewhere in this Prospectus.

#### 7.6.1.4 Deferred Income Tax Assets

Deferred income tax assets include potential tax reliefs for actuarial gains and losses on post-retirement benefit obligations, reserves and provisions, where temporary differences exist under the tax laws of the Kingdom. As at 31 December 2016G and 2017G, the Company's deferred income tax assets decreased from SAR 64.5 billion to SAR 13.6 billion, respectively, primarily due to the reduced tax rate applicable to the Company following changes to the fiscal regime under which the Company operates and the adoption of an accelerated method of property, plant and equipment depreciation, effective 1 January 2017G, which changed the net deferred tax position in respect of property, plant and equipment and intangible assets from deferred tax assets to deferred tax liabilities. As at 31 December 2017G and 2018G, the Company's deferred income tax assets decreased from SAR 13.6 billion to SAR 9.9 billion (\$2.6 billion), respectively, primarily due to actuarial gains resulting from increases in discount rates in 2018G, which caused a reduction in the post-employment benefits obligations, partially offset by the reclassification of the deferred income tax liability related to property, plant and equipment

and intangible assets to deferred income tax liabilities. As at 30 June 2019G, the Company's deferred income tax assets increased from SAR 9.9 billion as at 31 December 2018G to SAR 10.7 billion (\$2.9 billion).

#### 7.6.1.5 Other Assets and Receivables

The non-current portion of other assets and receivables primarily includes home loans to employees, employee home ownership construction and loans to joint ventures and associates. As at 31 December 2016G and 2017G, the Company's other assets and receivables increased from SAR 12.5 billion to SAR 14.1 billion, respectively, primarily due to the continued progress in construction activities related to the South Dhahran home ownership programme. As at 31 December 2017G and 2018G, the Company's other assets and receivables decreased from SAR 14.1 billion to SAR 13.1 billion (\$3.5 billion), respectively, primarily due to the conversion of shareholder loans held by the Company in Sadara to new equity interests in Sadara. This decrease was partially offset by employee home ownership construction by the Company. As at 30 June 2019G, the Company's other assets and receivables increased from SAR 13.1 billion as at 31 December 2018G to SAR 18.1 billion (\$4.8 billion), primarily due to an increase in advances to contractors against capital projects (SAR 3.8 billion).

The following table sets forth an overview of Sadara's share capital and accumulated losses as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 56: Sadara's share capital and accumulated losses as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December			As at 30 June
	2016G	2017G	2018G	2019G
	SAR	SAR	SAR	SAR
	(in millions, except percentages)			
Sadara share capital	27,938	35,625	35,625	35,625
Sadara accumulated (losses)	(12,784)	(17,659)	(17,794)	(17,448)
<b>Accumulated losses as a percentage of share capital</b>	<b>45.8%</b>	<b>49.6%</b>	<b>49.9%</b>	<b>49.0%</b>
Of which:				
65% share capital contributed by Saudi Aramco	18,159	23,156	23,156	23,156
Shareholder loans at period end (including loans absorbed during the year)	1,796	1,915	1,915 <sup>(1)</sup>	3,499 <sup>(2)</sup>
<b>Total capital contributed by Saudi Aramco</b>	<b>19,956</b>	<b>25,071</b>	<b>25,071<sup>(1)</sup></b>	<b>26,656</b>
Saudi Aramco Board-approved commitment	25,125	25,125	25,125	32,035
Unutilised commitment <sup>(1)</sup>	5,169	54	54	5,379

Source: Company.

(1) As at 31 December 2018G, Sadara had drawn down in full the Board approved capital commitment, including the loan absorbed against losses in the year ended 2018G. During 2018G, SAR 1.9 billion of shareholder loans were absorbed against losses from Sadara.

(2) The balance of SAR 3.5 billion represents the SAR 1.9 billion absorbed against losses in 2018G in addition to SAR 731 million absorbed against payable balances in the six months ended 30 June 2019G and a shareholder loan of SAR 853 million as at 30 June 2019G.

#### 7.6.1.6 Investment in Securities

Investment in securities includes various minority investments in listed equities and securities, comprising Saudi Electricity Company, Idemitsu Kosan and Sumed Company, in addition to a portfolio of investments held by Stellar. As at 31 December 2016G and 2017G, the Company's investment in securities increased from SAR 17.5 billion to SAR 18.9 billion, respectively, primarily due to an increase in the fair value of the Company's investments in Showa Shell Sekiyu and other securities. As at 31 December 2017G and 2018G, the Company's investment in securities decreased from SAR 18.9 billion to SAR 17.2 billion (\$4.6 billion), respectively, primarily due to a decline in Saudi Electricity Company's fair value. As at 30 June 2019G, the Company's investment in securities increased from SAR 17.2 billion as at 31 December 2018G to SAR 18.9 billion (\$5.0 billion), primarily due to an increase in the fair value of the Company's investment in Saudi Electricity Company.

The Company's investment in securities does not have a material effect on its financial position or results of operations.

## 7.6.2 Current Assets

The following table sets forth the Company's current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 57: Current assets as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Current assets</b>						
Inventories . . . . .	21,056	34,013	43,580	11,621	45,164	12,044
Trade receivables . . . . .	65,258	86,892	93,818	25,018	100,178	26,714
Due from the Government . . . . .	—	38,991	48,140	12,837	46,715	12,457
Other assets and receivables . . . . .	4,879	5,881	13,775	3,673	11,464	3,057
Short-term investments . . . . .	12,536	6,184	194	52	45,452	12,120
Cash and cash equivalents . . . . .	48,075	81,242	183,152	48,841	148,225	39,527
<b>Total current assets</b> . . . . .	<b>151,804</b>	<b>253,203</b>	<b>382,659</b>	<b>102,042</b>	<b>397,198</b>	<b>105,919</b>

Source: Financial Statements.

### 7.6.2.1 Inventories

Inventories include refined products, other hydrocarbons and, to a lesser extent, crude oil, materials and supplies. The Company's inventories increased from SAR 21.1 billion as at 31 December 2016G to SAR 34.0 billion as at 31 December 2017G, increased to SAR 43.6 billion as at 31 December 2018G and increased to SAR 45.2 billion (\$12.0 billion) as at 30 June 2019G. The change from 2016G to 2017G was primarily due to a change in the basis of inventory valuation to include royalty costs following the changes in the fiscal regime effective 1 January 2017G, the consolidation of Motiva into the Company's financial statements from 1 May 2017G and an increase in the market price of crude oil and refined products during 2017G. The change from 2017G to 2018G was primarily due to an increase of SAR 3.4 billion in chemicals inventory as a result of the full consolidation of ARLANXEO and an increase in crude oil inventory of SAR 4.3 billion as a result of an increase in oil prices. The change from 31 December 2018G to 30 June 2019G was primarily due to an increase in the value of refined product inventory.

### 7.6.2.2 Trade Receivables

Trade receivables primarily relate to the export sales of crude oil and refined products to third parties and also sales of crude oil to joint ventures and associates. The Company's trade receivables increased from SAR 65.3 billion as at 31 December 2016G to SAR 86.9 billion as at 31 December 2017G, increased to SAR 93.8 billion as at 31 December 2018G and increased to SAR 100.2 billion (\$26.7 billion) as at 30 June 2019G. The change from 2016G to 2017G was primarily due to the increase in prevailing crude oil prices during 2017G, in addition to the consolidation of Motiva into the Company's financial statements from 1 May 2017G. The change from 2017G to 2018G was primarily due to an increase in prevailing oil prices. The change from as at 31 December 2018G to as at 30 June 2019G was primarily due to a SAR 5.7 billion increase in export receivables as a result of an increase in prevailing oil prices in the last two months of the period ending 30 June 2019G, as compared to the last two months of period ending 31 December 2018G.

### 7.6.2.3 Due from the Government

Amounts due from the Government consist of equalisation payments due from the Government to compensate the Company for sales within the Kingdom that are made at regulated prices, as well as receivables due from certain Government-related customers. For a discussion of price equalisation and the Government guarantee, see Section 7.3.6 (*Fiscal Regime Changes*). There were no amounts due from the Government as at 31 December 2016G. As at 31 December 2017G and 2018G, amounts due from the Government increased from SAR 39.0 billion to SAR 48.1 billion, primarily due to an increase in amounts due from the Government for certain sales, partially offset by the decrease in price equalisation income as a result of an increase in regulated prices charged to customers in the Kingdom. See Section 7.5.1.2 (*Other Income Related to Sales*). As at 31 December 2018G and 30 June 2019G, amounts due from the Government decreased from SAR 48.1 billion to

SAR 46.7 billion (\$12.5 billion), primarily due to a decrease of SAR 3.0 billion in receivables due under the Government guarantee.

#### 7.6.2.4 Other Assets and Receivables

The current portion of other assets and receivables includes various receivables, certain prepaid assets, derivative assets, and VAT receivables. As at 31 December 2016G and 2017G, the Company's other assets and receivables increased from SAR 4.9 billion to SAR 5.9 billion, primarily due to an increase in prepaid expenses such as rent, insurance and freight storage. As at 31 December 2017G and 2018G, the Company's other assets and receivables increased from SAR 5.9 billion to SAR 13.8 billion (\$3.7 billion), primarily due to the consolidation of the Company's share of PRefChem, an increase in VAT receivables, an increase in supplier advances and the reclassification of derivative assets from trade receivables to other assets and receivables. As at 30 June 2019G, the Company's other assets and receivables decreased from SAR 13.8 billion as at 31 December 2018G to SAR 11.5 billion (\$3.1 billion), primarily due to a reduction in derivative assets resulting from a decrease in commodity swaps held by ATC.

#### 7.6.2.5 Short-Term Investments

Short-term investments include time deposits with a maturity greater than three months but not exceeding one year. As at 31 December 2016G, the Company's short-term investments were SAR 12.5 billion, which decreased to SAR 6.2 billion as at 31 December 2017G. The majority of the SAR 6.2 billion in short-term investments as at 31 December 2017G consisted of time deposits held by S-Oil. This amount decreased to SAR 194 million (\$52 million) as at 31 December 2018G as a result of S-Oil expending funds on certain projects. As at 31 December 2018G and 30 June 2019G, the Company's short-term investments increased from SAR 0.2 billion to SAR 45.5 billion (\$12.1 billion), primarily due to the investment of cash receipts from the issuance of the Senior Unsecured Notes in April 2019G.

#### 7.6.2.6 Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments or time deposits with original maturities of three months or less. As at 31 December 2016G, 2017G and 2018G, the Company's cash and cash equivalents were SAR 48.1 billion, SAR 81.2 billion and SAR 183.2 billion (\$48.8 billion), respectively. These increases were primarily due to increased profitability as a result of an increase in crude oil prices, partially offset by dividends paid to the Government and ongoing capital expenditures. As at 30 June 2019G, the Company's cash and cash equivalents decreased from SAR 183.2 billion as at 31 December 2018G to SAR 148.2 billion (\$39.5 billion). This decrease was primarily due to the payment of dividends of SAR 174.0 billion to the Government and ongoing capital expenditures of SAR 54.3 billion. This decrease was partially offset by cash generated from operating activities.

### 7.6.3 Shareholder's equity

**Table 58: Shareholder's equity as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Shareholder's equity</b>						
Share capital .....	—	—	60,000	16,000	60,000	16,000
Stated capital .....	60,000	60,000	—	—	—	—
Additional paid-in capital .....	26,981	26,981	26,981	7,195	26,981	7,195
Retained earnings						
Unappropriated .....	631,481	715,107	920,625	245,500	918,011	244,803
Appropriated .....	6,000	6,000	6,000	1,600	6,000	1,600
Other reserves .....	128	5,670	3,176	847	1,959	522
<b>Shareholder's equity</b> .....	<b>724,590</b>	<b>813,758</b>	<b>1,016,782</b>	<b>271,142</b>	<b>1,012,951</b>	<b>270,120</b>

Source: Financial Statements.

#### 7.6.3.1 *Capital*

Effective 1 January 2018G, the Company was converted to a Saudi joint stock company with new Bylaws. The Company's share capital, previously stated capital, was set at SAR 60.0 billion, which was divided into 200 billion ordinary equal voting shares, without par value. The capital was fully paid. Prior to this conversion, the Company did not historically issue shares, and therefore made distributions to the Government as its sole equity owner from available excess cash balances, rather than dividends. The Company did not have a formal policy underpinning such distributions. For more information on the Company's new dividend policy, see Section 8 (*Dividend Distribution Policy and Dividends Framework*).

From 31 December 2016G to 30 June 2019G, there were no changes in the Company's paid-up capital. From 31 December 2016G to 30 June 2019G, there were no changes to the paid-up capital of the Company's Material Subsidiaries, with the exception of Motiva. Motiva's capital is not divided into a specific number of shares. However, during the year ended 31 December 2017G, SRI contributed \$1.1 billion to Motiva and during the year ended 31 December 2018G, SRI contributed an additional \$400 million to partially finance repayment of Motiva's debt.

#### 7.6.3.2 *Retained Earnings*

Retained earnings comprise unappropriated and appropriated retained earnings. Pursuant to the Company's Bylaws, appropriated retained earnings are not available for distribution to shareholders. Retained earnings increased from SAR 637.5 billion as at 31 December 2016G to SAR 721.1 billion as at 31 December 2017G, primarily due to an increase in net income, partially offset by an increase in cash distributions. Retained earnings increased from SAR 721.1 billion as at 31 December 2017G to SAR 926.6 billion (\$247.1 billion) as at 31 December 2018G, primarily due to an increase in net income, partially offset by an increase in cash distributions. As at 30 June 2019G, the Company's retained earnings decreased from SAR 926.6 billion as at 31 December 2018G to SAR 924.0 billion (\$246.4 billion). This decrease was primarily attributable to distribution of dividends, which largely offset the net income for the six months ended 30 June 2019G, and a loss due to remeasurement of post-employment benefit obligations.

#### 7.6.3.3 *Other Reserves*

Other reserves primarily consist of the change in the fair value of certain Company financial instruments, such as investments in securities and cash flow hedges and foreign currency translation adjustments. Other reserves increased from SAR 128 million as at 31 December 2016G to SAR 5,671 million as at 31 December 2017G, decreased to SAR 3,176 million (\$847 million) as at 31 December 2018G and decreased to SAR 1,959 million (\$522 million) as at 30 June 2019G. The change in other reserves was primarily driven by gains or losses resulting from foreign currency translation adjustments and the remeasurement of fair value of available for sale financial assets and investment in securities.

#### 7.6.3.4 *Non-controlling Interests*

Non-controlling interests represent equity interests in certain Company subsidiaries that are not wholly owned by the Company. Non-controlling interests increased from SAR 10.8 billion as at 31 December 2016G to SAR 12.6 billion as at 31 December 2017G, driven by total comprehensive income attributable to non-controlling interests of SAR 2.6 billion in the year ended 31 December 2017G, partially offset by dividends paid to non-controlling interests of SAR 1.1 billion. Non-controlling interests decreased to SAR 11.7 billion (\$3.1 billion) as at 31 December 2018G driven by dividends paid to non-controlling interests of SAR 0.9 billion in the year ended 31 December 2018G and decreased to SAR 11.2 billion (\$3.0 billion) driven by a total comprehensive loss attributable to non-controlling interests of SAR 0.5 billion as at 30 June 2019G.

#### 7.6.4 Non-Current Liabilities

The following table sets forth the Company's non-current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 59: Non-current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Non-current liabilities</b>						
Borrowings	43,477	68,692	71,329	19,021	134,472 <sup>(1)</sup>	35,859 <sup>(1)</sup>
Deferred income tax liabilities	6,169	6,309	23,877	6,367	26,958	7,189
Post-employment benefit obligations	46,785	38,191	23,209	6,189	33,505	8,935
Provisions	9,398	13,997	15,606	4,162	16,519	4,405
<b>Total non-current liabilities</b>	<b>105,829</b>	<b>127,189</b>	<b>134,021</b>	<b>35,739</b>	<b>211,454</b>	<b>56,388</b>

Source: Financial Statements.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

##### 7.6.4.1 Borrowings

Borrowings include principal amounts outstanding on various debt facilities, finance leases, sukuk and debentures. As at 31 December 2016G and 2017G, the Company's non-current borrowings increased from SAR 43.5 billion to SAR 68.7 billion, primarily due to the issuance of SAR 11.3 billion (\$3.0 billion) of sukuk issued under the Company's Sukuk Programme and the inclusion of debentures issued by Motiva into the Company's financial statements on becoming a subsidiary. As at 31 December 2017G and 2018G, the Company's non-current borrowings increased from SAR 68.7 billion to SAR 71.3 billion (\$19.0 billion), primarily due to finance leases incurred by the Company in connection with the Jazan integrated petrochemical refinery. This increase was partially offset by Motiva redeeming a portion of its senior notes. As at 30 June 2019G, the Company's non-current borrowings increased from SAR 71.3 billion as at 31 December 2018G to SAR 134.5 billion (\$35.9 billion), primarily due to the issuance of SAR 45.0 billion (\$12.0 billion) of notes under the Company's GMTN Programme and recognition of SAR 26.1 billion of additional lease liabilities upon the adoption of IFRS 16.

##### 7.6.4.2 Deferred Income Tax Liabilities

Deferred income tax liabilities include a liability relating to Motiva, inventory and depreciation differences and deferred taxes arising on fair value adjustments arising from the acquisition of a controlling interest in S-Oil. As at 31 December 2016G and 2017G, the Company's deferred income tax liabilities increased from SAR 6.2 billion to SAR 6.3 billion. As at 31 December 2017G and 2018G, the Company's deferred income tax liabilities increased from SAR 6.3 billion to SAR 23.9 billion (\$6.4 billion) primarily due to the reclassification of the net deferred tax position related to property, plant and equipment and intangible assets to deferred tax liabilities from deferred tax assets. As at 31 December 2018G and 30 June 2019G, the Company's deferred income tax liabilities increased from SAR 23.9 billion to SAR 27.0 billion (\$7.2 billion), primarily due the accelerated depreciation of additions to property, plant and equipment during that period.

##### 7.6.4.3 Post-Employment Benefits Obligations

Post-employment benefits obligations include liabilities associated with the Company's provision of certain post-employment defined benefit healthcare, retirement, severance and other benefits to former employees. As at 31 December 2016G and 2017G, the Company's net defined benefits liability decreased from SAR 46.8 billion to SAR 38.2 billion, primarily due to the appreciation of the value in plan assets and employer contributions, which more than offset the reduction of the discount rate. As at 31 December 2017G and 2018G, the Company's net defined benefits liability decreased from SAR 38.2 billion to SAR 23.2 billion (\$6.2 billion), primarily due to remeasurement gains of benefit plan obligations following increases in discount rates and a decrease in the

obligation from Company contributions to benefit plan assets. As at 30 June 2019G, the Company's net defined benefits liability increased from SAR 23.2 billion as at 31 December 2018G to SAR 33.5 billion (\$8.9 billion), primarily due to a remeasurement of the post-employment benefits obligations.

#### 7.6.4.4 Provisions

Provisions include the present value of future estimated costs associated with plugging and abandonment of oil and gas wells, and the remediation of ground water and soil contamination. As at 31 December 2016G and 2017G, the Company's provisions increased from SAR 9.4 billion to SAR 14.0 billion, primarily due to costs associated with an increase in the number of oil and gas wells and the reduction of the discount rate applied to asset retirement obligations. As at 31 December 2017G and 2018G, the Company's provisions increased from SAR 14.0 billion to SAR 15.6 billion (\$4.2 billion), primarily due to a change in the discount rate used in the Company's asset retirement obligations forecast model and new asset retirement obligations related to the Company's new wells. As at 31 December 2018G and 30 June 2019G, the Company's provisions increased from SAR 15.6 billion to SAR 16.5 billion (\$4.4 billion), respectively.

#### 7.6.5 Current Liabilities

The following table sets forth the Company's current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 60: Current liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Current liabilities</b>						
Trade and other payables	52,139	62,055	72,286	19,276	68,279	18,208
Obligations to the Government:						
Income taxes	28,541	57,679	69,575	18,553	69,174	18,446
Royalties	9,866	20,410	11,862	3,164	12,990	3,464
Borrowings	8,982	8,906	29,989	7,997	38,407 <sup>(1)</sup>	10,242 <sup>(1)</sup>
<b>Total current liabilities</b>	<b>99,528</b>	<b>149,050</b>	<b>183,712</b>	<b>48,990</b>	<b>188,850</b>	<b>50,360</b>

Source: Financial Statements.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

##### 7.6.5.1 Trade and Other Payables

Trade and other payables include trade payables, accruals, employee benefit plan liabilities and other sundry payables. As at 31 December 2016G and 2017G, the Company's trade and other payables increased from SAR 52.1 billion to SAR 62.1 billion, primarily due to the consolidation of Motiva into the Company's financial statements and accrued liabilities for capital projects. As at 31 December 2017G and 2018G, the Company's trade and other payables increased from SAR 62.1 billion to SAR 72.3 billion (\$19.3 billion), primarily due to the consolidation of ARLANXEO's trade and other payables following the completion of its acquisition, in addition to an increase in accrued services, materials and employee expenses. As at 30 June 2019G, the Company's trade and other payables decreased from SAR 72.3 billion as at 31 December 2018G to SAR 68.3 billion (\$18.2 billion), primarily due to the consolidation of ARLANXEO's trade and other payables post-acquisition in addition to the increase in accrued services.

##### 7.6.5.2 Obligations to the Government

###### (a) Income Taxes

As at 31 December 2016G and 2017G, the Company's income tax liability increased from SAR 28.5 billion to SAR 57.7 billion, primarily due to higher income before taxes in the last quarter of 2017G as compared to the same quarter of 2016G. As at 31 December 2017G and 2018G, the Company's income tax liability increased



from SAR 57.7 billion to SAR 69.6 billion (\$18.6 billion), primarily due to higher taxable income in 2018G. As at 30 June 2019G, the Company's income tax liability decreased from SAR 69.6 billion as at 31 December 2018G to SAR 69.2 billion (\$18.4 billion).

**(b) Royalties**

Royalties are paid to the Government monthly in arrear. As at 31 December 2016G and 2017G, the Company's royalties payable increased from SAR 9.9 billion to SAR 20.4 billion due to the change in the royalty regime from sales-based to production-based and an increase in the price of crude oil and condensate during 2017G. As at 31 December 2017G and 2018G, the Company's royalties payable decreased from SAR 20.4 billion to SAR 11.9 billion (\$3.2 billion) due to payment of a one-off royalty expense of SAR 5.5 billion recognised in December 2017G and settled in the first half of 2018G, as well as a decrease in production and crude oil prices in December 2018G compared to December 2017G. As at 30 June 2019G, the Company's royalties increased from SAR 11.9 billion as at 31 December 2018G to SAR 13.0 billion (\$3.5 billion), primarily due to an increase in prevailing oil prices in the last month of the period ending 30 June 2019G as compared to the last month of the period ending 30 December 2018G.

**7.6.5.3 Current portion of Borrowings**

Current portion of borrowings include the current portion of principal amounts outstanding on short-term bank financing, borrowings, sukuk and finance lease liabilities. As at 31 December 2016G and 2017G, the Company's current portion of borrowings decreased from SAR 9.0 billion to SAR 8.9 billion. As at 31 December 2017G and 2018G, the Company's current portion of borrowings increased from SAR 8.9 billion to SAR 30.0 billion (\$8.0 billion), primarily due to a bridge loan of SAR 15.0 billion incurred by PRefChem. As at 30 June 2019G, the Company's current portion of borrowings increased from SAR 30.0 billion as at 31 December 2018G to SAR 38.4 billion (\$10.2 billion), primarily due to a SAR 3.2 billion increase in short-term bank financing and a SAR 6.0 billion increase in the current portion of lease liabilities as a result of the adoption of IFRS 16.

## 7.7 Borrowings

The following table sets forth the Company's borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 61: Borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Non-current:</b>						
Borrowings	27,630	26,664	25,934	6,916	24,086 <sup>(1)</sup>	6,423 <sup>(1)</sup>
Debentures	7,276	20,735	17,014	4,537	61,331	16,355
Sukuk (Sharia compliant)	1,918	13,001	12,821	3,419	12,915	3,444
Finance lease liabilities	6,653	7,158	12,329	3,288	32,882	8,769
Other	—	1,134	3,231	862	3,258	869
<b>Total non-current</b>	<b>43,477</b>	<b>68,692</b>	<b>71,329</b>	<b>19,021</b>	<b>134,472</b>	<b>35,859</b>
<b>Current:</b>						
Short-term bank financing	5,551	4,857	23,174	6,180	26,375	7,033
Borrowings	2,878	3,354	5,906	1,575	5,160 <sup>(1)</sup>	1,376 <sup>(1)</sup>
Sukuk (Sharia compliant)	134	157	180	48	180	48
Finance lease liabilities	419	538	729	194	6,692	1,785
<b>Total current</b>	<b>8,982</b>	<b>8,906</b>	<b>29,989</b>	<b>7,997</b>	<b>38,407</b>	<b>10,242</b>
<b>Finance costs:</b>						
Conventional borrowing	565	965	1,576	420	1,334	356
Finance lease liabilities	529	500	480	128	902	240
Sharia compliant financial instruments	260	625	593	158	340	91
Others	—	—	310	83	203	54
<b>Total finance costs</b>	<b>1,354</b>	<b>2,090</b>	<b>2,959</b>	<b>789</b>	<b>2,779</b>	<b>741</b>

Source: Financial Statements and Company.

(1) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

The Company has entered into long-term financing arrangements with various lenders, including secured arrangements with a carrying value of SAR 34,079 million, SAR 39,427 million and SAR 39,699 million (\$9,786 million) for 2016G, 2017G and 2018G, respectively. For further information, see Note 17 to the 2018G Financial Statements and Note 17 to the 2017G Financial Statements included elsewhere in this Prospectus. The following table sets forth the Company's borrowing facilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 62: Borrowing facilities and debt programmes as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	Total Facility Size						Amount Undrawn					
	As at 31 December				As at 30 June		As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)											
<b>Borrowing Facilities and Debt Programs</b>												
Revolving credit facilities	38,891	48,825	47,677	12,714	47,677	12,714	38,891	48,825	47,677	12,714	47,677	12,714
Short-term borrowings	20,794	24,578	33,840	9,024	33,840	9,024	15,244	19,721	10,928	2,914	10,928	2,914
Commercial and other	28,658	30,559	28,968	7,725	28,968	7,725	3,173	4,605	3,263	870	3,402	907
Export credit agencies	6,353	13,854	13,854	3,694	13,854	3,694	—	75,000	7,500	2,000	7,500	2,000
Public Investment Fund	4,594	4,594	4,594	1,225	4,594	1,225	—	—	—	—	—	—
Sukuk (Sharia compliant)	2,344	39,844	39,844	10,625	39,844	10,625	—	26,250	26,250	7,000	26,250	7,000
Saudi Industrial Development Fund	1,249	1,249	3,248	866	3,248	866	—	—	—	—	—	—
Procurement (Sharia compliant)	—	—	2,528	674	2,528	674	—	—	—	—	—	—
Wakala (Sharia compliant)	821	821	821	219	821	219	—	—	—	—	—	—
<b>Total</b>	<b>103,704</b>	<b>164,324</b>	<b>175,374</b>	<b>46,766</b>	<b>175,374</b>	<b>46,766</b>	<b>57,308</b>	<b>106,901</b>	<b>95,618</b>	<b>25,498</b>	<b>95,757</b>	<b>25,535</b>

Source: Financial Statements and Company.

The Company believes that its existing cash and cash equivalents balance, together with amounts available under its borrowing arrangements and cash generated from operations, will be sufficient to meet its working capital requirements for at least the next 12 months. The Company currently has access to a revolving credit facility and has the ability to make further issuances under its GMTN Programme and Sukuk Programme. Certain of the Company's subsidiaries also have entered into, and have access to, credit facilities, sukuk or other financing.

#### 7.7.1 GMTN Programme

On 1 April 2019G, Saudi Aramco established a global medium term note programme (the "GMTN Programme") pursuant to which it may from time to time issue notes. On 16 April 2019G, Saudi Aramco issued \$12.0 billion in aggregate principal amount of senior unsecured notes under the GMTN Programme comprising five tranches, all of which are payable semi-annually in arrear: \$1.0 billion 2.750% senior notes due 2022; \$2.0 billion 2.875% senior notes due 2024; \$3.0 billion 3.500% senior notes due 2029; \$3.0 billion 4.250% senior notes due 2039 and \$3.0 billion 4.375% senior notes due 2049 (collectively, the "Senior Unsecured Notes"). The Senior Unsecured Notes are constituted by a trust deed dated 1 April 2019G between Saudi Aramco and Citibank N.A., London Branch, as trustee. Interest is payable semi-annually on 16 April and 16 October. After deducting fees and expenses related to the Senior Unsecured Notes, Saudi Aramco's net proceeds were \$11.8 billion. The Senior Unsecured Notes constitute direct obligations of Saudi Aramco and are not guaranteed.

#### 7.7.2 PIF Seller Loan

In connection with the closing of the proposed acquisition of the PIF's 70% equity interest in SABIC, 64% of the total consideration of \$69.1 billion will be paid in the form of a seller loan, with the balance of the consideration paid in cash. The seller loan will be secured by four separate promissory notes issued by Saudi Aramco in favour of the PIF. In accordance with the terms of the purchase agreement, as amended, Saudi Aramco will pay a loan charge to the PIF on the closing date in the form of a cash payment equal to \$500 million and the issuance of five additional promissory notes in an aggregate principal amount of \$2.5 billion.

The seller loan and the balance of the loan charge secured by the promissory notes will become due and payable as follows:

- (i) on or before 30 September 2020G, a loan charge of \$250 million;
- (ii) on or before 30 September 2021G, an amount equal to 16% of the purchase price plus a loan charge of \$250 million;
- (iii) on or before 30 September 2022G, an amount equal to 16% of the purchase price;
- (iv) on or before 30 September 2023G, an amount equal to 16% of the purchase price plus a loan charge of \$750 million;

- (v) on or before 30 September 2024G, an amount equal to 16% of the purchase price plus a loan charge of \$750 million; and
- (vi) on or before 30 September 2025G, a loan charge of \$500 million.

Each promissory note will be fully transferable and assignable and may be pledged by the PIF. However, if the PIF receives any offer or commitment of financing that would include a transfer of a promissory note, the Company may within 30 days of receiving notice of the offer or commitment, notify the PIF in writing of its intent to purchase all or a portion of the promissory notes to be transferred on the same terms. To the extent the Company does not elect to purchase the promissory notes to be transferred, the PIF may transfer such promissory notes during the subsequent 120 day period. The Company intends to continue repaying the promissory notes in a phased manner through cash from operations, external debt financing or a combination thereof.

### **7.7.3 Revolving Credit Facilities**

The Company entered into a common terms agreement in relation to \$10 billion revolving credit facilities on 26 March 2015G with HSBC Saudi Arabia Limited, J.P. Morgan Limited and Riyadh Bank as Global co-ordinators, The Bank of Tokyo-Mitsubishi UFJ, Ltd. as conventional facility agent, Riyadh Bank as global facility agent and murabaha facility agent and a club of 28 regional and international banks (the “**Revolving Credit Facilities Common Terms Agreement**”).

The Revolving Credit Facilities Common Terms Agreement provides the framework and common lending terms for a U.S. Dollar facility and a SAR murabaha facility. The U.S. Dollar facility is made up of a five-year \$6 billion facility (with two one-year extension options) and an annually renewable 364-day \$1 billion facility. These facilities are priced at 12 and 10 basis points, for the five-year and 364-day facilities respectively, over LIBOR.

The SAR murabaha facility is made up of a five-year SAR 7.5 billion (\$2 billion) facility (with two one-year extension options) and an annually renewable 364-day SAR 3.75 billion (\$1 billion) facility. These facilities are priced at 11 and 9 basis points, for the five-year and 364-day facilities respectively, over the Saudi Arabian Interbank Offered Rate (“**SAIBOR**”).

The facilities under the Revolving Credit Facilities Common Terms Agreement are unsecured and not guaranteed, Saudi Aramco being the direct obligor.

### **7.7.4 Sukuk**

Saudi Aramco Sukuk Company, an indirect subsidiary of the Company, established the Sukuk Programme on 21 March 2017G pursuant to which it may issue, from time to time, up to SAR 37.5 billion in aggregate nominal amount of sukuk.

Saudi Aramco Sukuk Company issued SAR 11.25 billion in aggregate nominal amount of sukuk on 10 April 2017G with a tenor of seven years. The sukuk provide a return based on SAIBOR plus a pre-determined margin payable semi-annually. The nominal amount of sukuk is payable on a bullet basis upon final redemption.

Saudi Aramco Sukuk Company issued SAR 2,344 million in aggregate nominal amount of the sukuk on 9 October 2011G with semi-annual payments from 20 December 2014G to 20 December 2025G that provide a rate of return above SAIBOR.

Sukuk are issued by Saudi Aramco Sukuk Company and are unsecured and not guaranteed.

### **7.7.5 Short-term Borrowings**

#### **7.7.5.1 Bridge Loan Facility**

Saudi Aramco has bridge loan facility agreements with 19 banks in the aggregate amount of SAR 15 million, at interest rates calculated at a market rate plus a margin. These agreements are expected to be converted to long-term debt in 2019G. None of these bridge loan facilities are material, either individually or in the aggregate, in the context of the Company’s business.

#### **7.7.5.2 Other Short-term Facilities**

Saudi Aramco has short-term facilities with a number of banks. The term of each such facility is for less than one year with interest rates calculated at a market rate plus a margin. None of these short-term facilities are material, either individually or in the aggregate, in the context of the Company’s business.

### **7.7.6 Commercial and Other**

Saudi Aramco has commercial and other facility agreements with a number of banks. The facilities are primarily repayable in 12 to 23 instalments on a semi-annual basis from 15 June 2014G to 20 December 2025G. Commission is payable on amounts drawn and is mainly calculated at a market rate plus a margin. None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### **7.7.7 Export Credit Agencies**

#### **7.7.7.1 UK Export Finance Facility**

On 11 October 2017G, Saudi Aramco entered into a \$2.0 billion U.S. Dollar denominated facility with five commercial banks, which is guaranteed by UK Export Finance. The facility had repayments on borrowings for five years with a margin based on LIBOR. No drawdowns had been made as at 31 December 2018G. The facility expired on 11 October 2019G.

#### **7.7.7.2 Other Export Credit Agencies**

Saudi Aramco has facility agreements with six export credit agencies. The facilities are repayable in 23 instalments on a semi-annual basis from 20 December 2014G to 20 December 2025G. Commission is payable on amounts drawn and is calculated at a market rate plus a margin. None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### **7.7.8 Public Investment Fund**

Saudi Aramco has facility agreements with the PIF. The facilities are repayable in 14 to 23 instalments on a semi-annual basis from 20 December 2014G to 20 December 2025G. Commission is payable on amounts drawn and is calculated at a market rate plus a margin. None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### **7.7.9 Saudi Industrial Development Fund (Sharia Compliant)**

Saudi Aramco has Sharia compliant facility agreements with the Saudi Industrial Development Fund. The facilities bear no periodic financial charges and borrowings are repayable in 12 to 14 unequal instalments on a semi-annual basis based on the Hijri calendar from 15/8/1437H (corresponding to 22 May 2016G) to 15/2/1452 (corresponding to 17 June 2030G). None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### **7.7.10 Procurement (Sharia Compliant)**

Saudi Aramco has Sharia compliant Islamic Facility Agreements with a number of banks. The facilities are repayable in 23 unequal instalments on a semi-annual basis commencing 20 December 2014G to 20 December 2025G. Commission is payable on amounts drawn and is calculated at a market rate plus margin. None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### **7.7.11 Wakala (Sharia Compliant)**

Saudi Aramco has Sharia compliant Islamic Facility Agreements with two lenders. The Islamic Facility Agreements utilise a wakala (agency) financing structure. The facilities are repayable in 23 instalments on a semi-annual basis from 20 December 2014G to 20 December 2025G. Commission is payable on amounts drawn and is calculated at a market rate plus a margin. None of these facilities are material, either individually or in the aggregate, in the context of the Company's business.

### 7.7.12 Carrying Amount of Non-Current Borrowings

The following table sets forth the carrying amounts of the Company's non-current borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 63: The carrying amounts of the Company's non-current borrowings as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Commercial and other	20,554	20,966	19,428	5,181	17,535	4,676
Sukuk (Sharia compliant)	2,051	13,166	13,009	3,469	13,103	3,494
Export credit agencies	5,107	4,683	4,230	1,128	3,990	1,064
Public Investment Fund	4,140	3,765	3,341	891	3,116	831
Saudi Industrial Development Fund (Sharia compliant)	1,125	960	2,778	741	2,685	716
Purchases	—	—	1,901	507	1,803	481
Wakala	—	—	615	164	585	156
Others	—	1,134	3,231	862	3,258	869
<b>Total</b>	<b>32,977</b>	<b>44,674</b>	<b>48,533</b>	<b>12,942</b>	<b>46,075</b>	<b>12,287</b>
Less: Non-amortized transaction costs	(417)	(364)	(461)	(123)	(1,016)	(271)
<b>Total</b>	<b>32,560</b>	<b>44,310</b>	<b>48,072</b>	<b>12,819</b>	<b>45,059</b>	<b>12,016</b>
Dollar-denominated Debentures <sup>(1)</sup>	—	11,333	8,479	2,261	9,544	2,545
KRW-denominated Debentures <sup>(2)</sup>	7,276	9,402	8,535	2,276	52,327	13,954
<b>Total</b>	<b>39,836</b>	<b>65,045</b>	<b>65,086</b>	<b>17,356</b>	<b>106,930</b>	<b>28,515</b>
Less: Current portion	(3,012)	(3,511)	(6,086)	(1,623)	(5,340)	(1,424)
<b>Non-current portion</b>	<b>36,824</b>	<b>61,534</b>	<b>59,000</b>	<b>15,733</b>	<b>101,590</b>	<b>27,091</b>

Source: Financial Statements and Company.

(1) U.S. Dollar-denominated debentures were issued in financial markets. Interest rates are fixed and variable and have maturities ranging from 2027G to 2040G.

(2) Korean Won (KRW)-denominated debentures were issued in public financial markets. Interest rates range from 1.6% to 3.5% with maturities starting in 2019G until 2027G.

The following table sets forth the change in unamortised transaction costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G.

**Table 64: The change in unamortised transaction costs for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G**

	Year ended 31 December				Six Months ended 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
1 January	375	417	364	97	461	123
Additional transaction costs incurred	87	—	157	42	574	153
Less: Amortisation	(45)	(53)	(60)	(16)	(19)	(5)
<b>31 December</b>	<b>417</b>	<b>364</b>	<b>461</b>	<b>123</b>	<b>1,016</b>	<b>271</b>

Source: Financial Statements and Company.

The following table sets forth the maturities of long-term loans at the applicable carrying amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 65: The maturities of long-term loans at the applicable carrying amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Not more than a year . . . . .	3,012	3,511	6,086	1,623	5,340	1,424
More than one year and not more than five years . . . .	19,969	28,521	26,183	6,982	38,142	10,171
More than five years . . . . .	17,272	33,377	33,278	8,874	64,464	17,190
<b>Total</b> . . . . .	<b>40,253</b>	<b>65,409</b>	<b>65,547</b>	<b>17,479</b>	<b>107,946</b>	<b>28,786</b>

Source: Financial Statements and Company.

The following table sets forth the maturities of long-term loans at the applicable contractual amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 66: The maturities of long-term loans at the applicable contractual amount as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Not more than a year . . . . .	3,172	3,735	6,946	1,852	7,883	2,102
More than one year and not more than five years . . . .	20,764	29,186	28,931	7,715	52,717	14,058
More than five years . . . . .	21,375	33,638	41,163	10,977	86,819	23,152
<b>Total</b> . . . . .	<b>45,311</b>	<b>66,559</b>	<b>77,040</b>	<b>20,544</b>	<b>147,419</b>	<b>39,312</b>

Source: Financial Statements and Company.

### 7.7.13 Finance Lease Liabilities

The Company has entered into various lease agreements for purposes of its business, none of which are individually material in the context of the Company's business. The Company does not currently expect future lease agreements to be material in the context of the Company's business.

Certain long-term financing facilities contain customary covenants which require the Company to maintain certain defined financial and other conditions. Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of a default. The lessor owns the relevant assets during the term of the contract and is responsible for the operation, insurance and maintenance of such assets until termination of the underlying agreements. For some leases, the lessor transfers its rights, title and interest in the assets to the lessee on the final day of the agreement. For other leases, there are no further obligations upon completion of the agreement. Performance guarantees are provided by the lessor under the terms of the agreements.

In the year ended 31 December 2018G, the Company recorded a 25 year finance lease in the amount of SAR 7,965 million for capital assets located at an under construction downstream facility. The terms of this finance lease include a monthly variable payment with a purchase option at 20 years and an option to extend the lease for another five years, at which point ownership of the assets transfer to the Company.

The following table sets forth the total finance lease obligations (minimum lease payments) and related future finance charges of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 67: The total finance lease obligations (minimum lease payments) and related future finance charges of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Not more than a year . . . . .	941	1,052	1,655	441	8,775	2,340
More than one year and not more than five years . . . . .	4,001	4,410	5,601	1,494	21,410	5,709
More than five years . . . . .	6,086	5,865	15,711	4,190	29,276	7,807
	<b>11,028</b>	<b>11,327</b>	<b>22,967</b>	<b>6,125</b>	<b>59,461</b>	<b>15,856</b>
Future financing expenses on finance leases . . . . .	(3,956)	(3,631)	(9,909)	(2,642)	(19,887)	(5,303)
<b>Total</b> . . . . .	<b>7,072</b>	<b>7,696</b>	<b>13,058</b>	<b>3,482</b>	<b>39,574</b>	<b>10,553</b>

Source: Financial Statements and Company.

The following table sets forth the present value of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 68: The present value of the Company's finance lease liabilities as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
Not more than a year . . . . .	419	538	729	194	6,692	1,785
More than one year and not more than five years . . . . .	2,235	2,713	2,463	657	15,462	4,123
More than five years . . . . .	4,418	4,445	9,866	2,631	17,420	4,645
<b>Total</b> . . . . .	<b>7,072</b>	<b>7,696</b>	<b>13,058</b>	<b>3,482</b>	<b>39,574</b>	<b>10,553</b>

Source: Financial Statements and Company.



## 7.8 Cash Flow Statement

The following table sets forth the Company's cash flow statements for financial years 2016G, 2017G and 2018G and for the six months ended 30 June 2018G and 2019G.

**Table 69: Cash flow statements for the years 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year ended 31 December				Six Months ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Income before income taxes	304,976	581,438	797,896	212,772	379,599	346,834 <sup>(2)</sup>	92,489 <sup>(2)</sup>
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities</b>							
Depreciation and amortisation	33,615	36,894	41,334	11,023	19,763	24,297 <sup>(2)</sup>	6,479 <sup>(2)</sup>
Impairments and provisions	14,794	190	107	28	—	—	—
Exploration and evaluation costs written off	6,791	8,522	2,951	787	1,618	1,539	410
Net loss (gain) on disposal of property, plant and equipment	127	(464)	—	—	—	—	—
Share of results from joint ventures and associates	979	956	1,415	377	(314)	1,432	382
Finance income <sup>(1)</sup>	(867)	(1,217)	(2,840)	(757)	(996)	(2,714)	(724)
Finance costs <sup>(1)</sup>	1,354	2,090	2,959	789	1,387	2,779 <sup>(2)</sup>	741 <sup>(2)</sup>
Dividends from investment in securities	(154)	(141)	(143)	(38)	(103)	(432)	(115)
(Gain) loss on remeasurement of investments in affiliates	—	262	(870)	(232)	—	—	—
Change in fair value of investments through profit or loss	38	(38)	(594)	(158)	(33)	(216)	(58)
Change in joint ventures and associates inventory profit elimination	(19)	(530)	103	27	169	87	23
Other	(283)	156	1,417	377	(1,656)	197	53
<b>Change in working capital</b>							
Inventories	(3,855)	(7,524)	(6,455)	(1,721)	(7,089)	(1,584)	(422)
Trade receivables	(21,435)	(17,874)	(5,696)	(1,519)	(31,282)	(7,458)	(1,989)
Due from the Government	—	(38,991)	(9,149)	(2,439)	(5,573)	1,425	380
Other assets and receivables	1,102	(517)	(7,335)	(1,956)	(4,783)	2,562	683
Trade and other payables	10,613	(1,140)	5,343	1,425	5,935	(4,328)	(1,154)
Royalties payable	4,789	10,544	(8,548)	(2,279)	(1,784)	1,128	300
<b>Other changes</b>							
Other assets and receivables	(3,122)	(3,204)	(1,117)	(298)	(1,116)	(5,732)	(1,528)
Provisions	6	(1,597)	(347)	(93)	112	737	197
Post-employment benefit obligations	(1,260)	(1,140)	(2,606)	(695)	(2,753)	1,062	283
Settlement of income and other taxes	(238,778)	(233,068)	(354,124)	(94,433)	(155,888)	(164,926)	(43,980)
<b>Net cash provided by operating activities</b>	<b>109,411</b>	<b>333,607</b>	<b>453,701</b>	<b>120,987</b>	<b>195,213</b>	<b>196,689</b>	<b>52,450</b>
Capital expenditures	(103,346)	(121,955)	(131,766)	(35,138)	(61,741)	(54,263)	(14,470)
Acquisition of affiliates, net of cash acquired	—	(1,152)	(8,571)	(2,285)	(2,662)	(385)	(103)
Distributions from joint ventures and associates	278	840	1,073	286	988	660	176
Dividends from securities	154	141	143	38	103	432	115
Interest received	744	1,167	2,942	784	954	2,463	657
Investment in ARLANXEO	(5,160)	—	—	—	—	—	—
Additional investment in joint ventures and associates	(5,325)	(3,546)	(401)	(106)	(23)	(321)	(86)
Net investment in securities	(829)	(476)	(615)	(164)	(246)	(607)	(162)
Net maturities (purchases) of short-term investments	(3,416)	6,352	5,990	1,597	4,105	(45,258)	(12,068)
<b>Net cash used in investing activities</b>	<b>(116,900)</b>	<b>(118,629)</b>	<b>(131,205)</b>	<b>(34,988)</b>	<b>(58,522)</b>	<b>(97,279)</b>	<b>(25,941)</b>
Dividends	—	—	(217,500)	(58,000)	(120,000)	(173,963)	(46,390)
Distributions to the Government	(11,250)	(187,849)	—	—	—	—	—
Dividends paid to non-controlling interests	(371)	(1,091)	(902)	(240)	(812)	(22)	(6)
Interest paid	(1,121)	(1,795)	(2,748)	(733)	(1,315)	(2,376)	(634)
Proceeds from borrowings	18,007	20,245	11,660	3,109	4,491	47,963	12,790
Repayments of borrowings	(3,244)	(11,321)	(11,096)	(2,959)	(4,871)	(5,939) <sup>(2)</sup>	(1,583) <sup>(2)</sup>
<b>Net cash (used in) provided by financing activities</b>	<b>2,021</b>	<b>(181,811)</b>	<b>(220,586)</b>	<b>(58,823)</b>	<b>(122,507)</b>	<b>(134,337)</b>	<b>(35,823)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(5,468)</b>	<b>33,167</b>	<b>101,910</b>	<b>27,176</b>	<b>14,184</b>	<b>(34,927)</b>	<b>(9,314)</b>
Cash and cash equivalents at beginning of the year	53,543	48,075	81,242	21,665	81,242	183,152	48,841
<b>Cash and cash equivalents at end of the year</b>	<b>48,075</b>	<b>81,242</b>	<b>183,152</b>	<b>48,841</b>	<b>95,426</b>	<b>148,225</b>	<b>39,527</b>

Source: Financial Statements.

(1) For 2016G and 2017G, finance income and finance costs were combined and reflected as net interest expense.

(2) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

The following table sets forth the Company's selected cash flow data for years ended 31 December 2016G, 2017G and 2018G and for the six months ended 30 June 2018G and 2019G.

**Table 70: Selected cash flow data for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
<b>Net cash provided by/(used in):</b>							
Operating activities <sup>(1)</sup> .....	109,411	333,607	453,701	120,987	195,213	196,689	52,450
Investing activities .....	(116,900)	(118,629)	(131,205)	(34,988)	(58,522)	(97,279)	(25,941)
Financing activities .....	2,021	(181,811)	(220,586)	(58,823)	(122,507)	(134,337)	(35,823)

Source: Financial Statements.

(1) Includes settlement of income and other taxes starting in 2017G. See Note 23(a) to the 2018G Financial Statements.

The Company primarily funds its operations with cash generated from operating activities. The Company's primary current uses of cash are ongoing operating expenses, capital expenditures and payments to the Government of royalties, income and other taxes and dividends.

The Company's future capital requirements will depend on many factors, including the capacity expansion of the MGS and expansion of its downstream operations.

#### 7.8.1 Cash Provided by Operating Activities

The Company's cash flow is primarily generated from its operations. Net cash from operations was SAR 109.4 billion for the year ended 31 December 2016G, SAR 333.6 billion for the year ended 31 December 2017G and SAR 453.7 billion (\$121.0 billion) for the year ended 31 December 2018G. Net cash from operations for the six months ended 30 June 2018G amounted to SAR 195.2 billion as compared to SAR 196.7 billion (\$52.5 billion) for the six months ended 30 June 2019G. The 205% increase from 2016G to 2017G was primarily due to an increase in the average realised price of crude oil by 29%, as well as the positive impact from the implementation of the price equalisation mechanism and a lower income tax rate in connection with the fiscal regime changes that took effect from 1 January 2017G. Cash provided by operating activities starting with the year ended 31 December 2017G includes settlement of income and tax and royalty obligations. See Note 23(a) to the 2018G Financial Statements and Note 23(a) to the 2017G Financial Statements. The 36% increase from 2017G to 2018G was primarily due to an increase in the price of crude oil by 33%, partially offset by an increase in cash paid for settlement of income and other taxes. The 1% increase from the six months ended 30 June 2018G to the six months ended 30 June 2019G was primarily due to a favourable change in working capital movements which was offset by the reduction in income before taxes.

#### 7.8.2 Cash Used in Investing Activities

Net cash used in investing activities amounted to SAR 116.9 billion for the year ended 31 December 2016G, SAR 118.6 billion for the year ended 31 December 2017G and SAR 131.2 billion (\$35.0 billion) for the year ended 31 December 2018G. Net cash used in investing activities amounted to SAR 58.5 billion for the six months ended 30 June 2018G as compared to SAR 97.3 billion (\$25.9 billion) for the six months ended 30 June 2019G. The 1% increase from 2016G to 2017G was primarily due to an increase in capital expenditures, partially offset by maturities of short-term time deposits. The 11% increase from 2017G to 2018G was primarily due to an increase in capital expenditures. The 66% increase from the six months ended 30 June 2018G to the six months ended 30 June 2019G was primarily due to the purchase of SAR 45.3 billion of short-term investments primarily due to receipt of the funds from the issuance of the Senior Unsecured Notes.

### 7.8.3 Capital Expenditures

The following table sets forth the Company's capital expenditures for each of its operating segments for the periods presented.

**Table 71: Capital expenditures for each of its operating segments for the years ended 31 December 2016G, 2017G and 2018G and the six month periods ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2019G	2019G	
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
Upstream <sup>(1)</sup> .....	68,205	82,508	96,768	25,805	44,563	41,930	11,181
Downstream .....	30,971	35,569	32,677	8,714	16,085	11,564	3,084
Corporate .....	4,170	3,878	2,321	619	1,093	769	205
<b>Total</b> .....	<b>103,346</b>	<b>121,955</b>	<b>131,766</b>	<b>35,138</b>	<b>61,741</b>	<b>54,263</b>	<b>14,470</b>

Source: Financial Statements.

(1) Includes exploration capital expenditures of SAR 9,264 million, SAR 7,735 million, SAR 9,034 million (\$2,409 million) and SAR 4,177 million (\$1,114 million) for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G, respectively, and development capital expenditures of SAR 38,667 million, SAR 38,643 million, SAR 38,944 million (\$10,385 million) and SAR 19,438 million (\$5,184 million) for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G, respectively.

The Company's total capital expenditures were SAR 103.3 billion for the year ended 31 December 2016G, SAR 122.0 billion for the year ended 31 December 2017G and SAR 131.8 billion (\$35.1 billion) for the year ended 31 December 2018G. The Company's capital expenditures were SAR 61.7 billion for the six months ended 30 June 2018G as compared to SAR 54.3 billion (\$14.5 billion) for the six months ended 30 June 2019G. The 18% increase from 2016G to 2017G was primarily due to ongoing capital projects at Jazan, upstream development projects to increase crude oil production at Khurais and Berri and the drilling of crude oil development wells and natural gas development wells during 2017G. The increase in other upstream capital expenditures from the year ended 31 December 2016G to the year ended 31 December 2017G primarily relates to the Fadhili gas plant to meet growing domestic demand for natural gas. The 8% increase in capital expenditures from 2017G to 2018G was primarily due to the expansion of the Haradh gas facilities and the construction of the Fadhili gas plant to meet growing domestic demand for natural gas. The 12% decrease from 30 June 2018G to 30 June 2019G was primarily due to decrease in capital expenditures on the Jazan complex and Fadhili gas plants as they approach completion. This decrease was partially offset by capital expenditures on ongoing capital projects to maintain and expand production.

The Company's current capital investment programme in the downstream segment includes committed capital expenditures related to the ongoing construction of the Jazan integrated petrochemical refinery and completing the integrated refinery and petrochemicals complex in Johor, Malaysia as part of the PRefChem joint ventures with Petronas. The Company's current capital investment programme includes the capacity expansion of the MGS to meet growing domestic demand for natural gas and the Company's upstream exploratory and development drilling campaigns. The Company's committed capital expenditures as at 30 June 2019G was SAR 101.2 billion (\$27.0 billion), which it intends to fund primarily through cash generated from operating activities. See Section 2.1.8 (*Risks related to achieving growth objectives*).

The Company expects its capital expenditures (excluding expenditures for mergers and acquisitions) for the year ended 31 December 2019G to be similar to its total capital expenditures for the year ended 31 December 2018G. In 2020G, the Company expects its capital expenditures (excluding expenditures for mergers and acquisitions) to be between \$35 billion and \$40 billion, which includes SABIC capital expenditures assuming the proposed acquisition of the PIF's equity interest in SABIC is consummated in the first half of 2020G. In 2021G, the Company expects its capital expenditures (excluding expenditures for mergers and acquisitions) to be between \$40 billion and \$45 billion, which includes SABIC capital expenditures assuming the proposed acquisition of the PIF's equity interest in SABIC has been consummated, consistent with medium term levels of organic capital expenditures. The Company believes it retains significant flexibility to reduce capital expenditures as necessary in lower oil price environments. In terms of the Company's capital expenditure allocation in the medium term, the Company currently expects to spend 35% on liquids related expenditures, 40% on gas-related expenditures and 25% on downstream related expenditures.

#### 7.8.4 Cash Used in/Provided by Financing Activities

Net cash provided by financing activities amounted to SAR 2.0 billion for the year ended 31 December 2016G and net cash used in financing activities amounted to SAR 181.8 billion and SAR 220.6 billion (\$58.8 billion) for the years ended 31 December 2017G and 2018G, respectively. Net cash used in financing activities amounted to SAR 122.5 billion for the six months ended 30 June 2018G as compared to SAR 134.3 billion (\$35.8 billion) for the six months ended 30 June 2019G. The change in net cash flow from 2016G to 2017G was primarily due to a SAR 176.6 billion increase in distributions paid to the Government, including the settlement of an amount due from the Government of SAR 56.6 billion in 2017G. See Note 23(a) to the 2017G Financial Statements. The change in net cash flow from financing activities from 2017G to 2018G was primarily due to an increase of SAR 29.7 billion (\$7.9 billion) in dividends and distributions paid to the Government. The change in net cash flow from the six months ended 30 June 2018G to the six months ended 30 June 2019G was primarily due to a SAR 54.0 billion (\$14.4 billion) increase in dividends paid to the Government, partially offset by proceeds from the issuance of the Senior Unsecured Notes.

#### 7.9 Commitments, Contingencies and Contractual Obligations

The following table sets forth the Company's contractual obligations as at 31 December 2018G.

**Table 72: Contractual obligations as at 31 December 2018G**

	Payments Due Per Period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
	SAR	SAR	SAR	SAR	SAR
	(in millions)				
Long-term borrowings and debentures <sup>(1)</sup>	6,946	13,826	15,105	41,163	77,040
Finance leases	1,655	2,773	2,828	15,711	22,967
Operating leases <sup>(2)</sup>	8,078	9,614	6,011	11,862	35,565
Purchase obligations	72,286	—	—	—	72,286
Decommissioning liabilities	95	1,028	895	11,689	13,707
Environmental liabilities	70	437	342	—	849
<b>Total</b>	<b>89,130</b>	<b>27,678</b>	<b>25,181</b>	<b>80,425</b>	<b>222,414</b>

Source: Company.

(1) Maturities at contractual value of long-term borrowings and debentures.

(2) Approximate minimum payments for non-cancellable operating leases which are principally for hauling services that include tanker charters, other marine equipment, bus services and other transportation equipment.

The Company's off-balance sheet arrangements primarily relate to contingent liabilities under guarantees issued by the Company in connection with financing arrangements at Sadara and Petro Rabigh.

In connection with Sadara, on 31 March 2013G the Company entered into a guarantee of 65% (the Company's ownership interest percentage in Sadara) of the senior debt amounts owed by Sadara to its credit providers. This guarantee will terminate at the earliest to occur of: (i) the project completion date, which is expected to occur by the end of the first half of 2020G; (ii) payment in full by Sadara of its senior debt amounts; (iii) the payment in full by the Company of its aggregate maximum liability (65% of the senior debt amounts); or (iv) the written release (from the security agent appointed by the credit providers) of the Company from its obligations thereunder. As at 31 December 2018G, out of a total guaranteed amount of SAR 30.9 (\$8.3 billion), the outstanding amount guaranteed by the Company was SAR 28.8 billion (\$7.7 billion).

The following table sets forth an overview of the Company's commitments and contingencies in connection with financing arrangements at Sadara as at 31 December 2018G.

**Table 73: Commitments and contingencies in connection with financing arrangements at Sadara as at 31 December 2018G**

	Type	Effective Date	Termination Date	Total exposure		Saudi Aramco Share	Total exposure	
				Max	As at 31 December 2018G		Max	As at 31 December 2018G
(in millions, except percentages)								
<b>Letters of credit (SAR)</b>								
Sadara .....	Finance	11 April 2012G	30 November 2017G <sup>(1)</sup>	338	338	50.0%	169	169
Sadara .....	Finance	23 July 2018G	23 July 19 <sup>(1)</sup>	450	450	50.0%	225	225
<b>Total</b> .....				<b>788</b>	<b>788</b>	—	<b>394</b>	<b>394</b>
<b>Guarantees (SAR)</b>								
Sadara .....	Performance	31 March 13	31 December 19	47,005	43,745	65.0%	30,553	28,435
<b>Guarantees</b> .....				<b>47,005</b>	<b>43,745</b>	—	<b>30,553</b>	<b>28,435</b>
<b>Total (SAR)</b> .....				<b>47,793</b>	<b>44,533</b>	—	<b>30,947</b>	<b>28,829</b>
<b>Total (\$)</b> .....				<b>12,745</b>	<b>11,875</b>	—	<b>8,253</b>	<b>7,688</b>

Source: Company.

(1) Letters of credit are automatically renewed on the relevant termination date until project completion.

For further information, see Note 25(a) to the 2018G Financial Statements included elsewhere in this Prospectus.

In connection with Petro Rabigh, in March 2015G, the Company entered into a guarantee of 50% of the payment obligations to the credit providers of Petro Rabigh under its SAR 19.4 billion project financing arrangements related to the Rabigh II Project. This guarantee will terminate upon the project completion date, which is expected to occur by 1 July 2020G. As at 31 December 2018G, the full amount of financing was drawn. The Company also entered into a guarantee of 50% of the payment obligations to the credit providers of Petro Rabigh under its SAR 11.3 billion equity bridge loans, of which SAR 8.9 billion was drawn as at 31 December 2018G.

As at 31 December 2018G, the minimum lease payments for non-cancellable operating leases was SAR 35.6 billion (\$9.5 billion). See Note 24(b) to the 2018G Financial Statements included elsewhere in this Prospectus. Effective 1 January 2019G, the Company has adopted IFRS 16 and capitalised a substantial amount of these operating leases. See Note 2(c) to the 2018G Financial Statements included elsewhere in this Prospectus and Note 2 to the 2019G Six Month Interim Period Financial Statements included elsewhere in this Prospectus.

## 7.10 Material Subsidiaries

### 7.10.1 Net Income of the Company's Material Subsidiaries

The following table sets forth the net income of the Company's Material Subsidiaries for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 74: Net income of the Company's Material Subsidiaries for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
<b>ATC</b>							
Revenue . . . . .	93,142	125,220	238,927	63,714	106,339	125,826	33,554
Operating costs . . . . .	(91,301)	(123,187)	(233,226)	(62,194)	(105,171)	(125,528)	(33,474)
<b>Operating income . . . . .</b>	<b>1,841</b>	<b>2,033</b>	<b>5,701</b>	<b>1,520</b>	<b>1,168</b>	<b>298</b>	<b>79</b>
Other income and expenses . . . . .	(153)	(189)	(741)	(197)	(210)	2	1
<b>Net income . . . . .</b>	<b>1,688</b>	<b>1,844</b>	<b>4,960</b>	<b>1,323</b>	<b>958</b>	<b>300</b>	<b>80</b>
<b>Motiva<sup>(1)</sup></b>							
Revenue . . . . .	—	65,484	123,919	33,045	59,373	62,772	16,739
Operating costs . . . . .	—	(64,173)	(121,156)	(32,308)	(57,334)	(61,675)	(16,447)
<b>Operating income . . . . .</b>	<b>—</b>	<b>1,311</b>	<b>2,763</b>	<b>737</b>	<b>2,039</b>	<b>1,097</b>	<b>293</b>
Other income and expenses . . . . .	—	(268)	(273)	(73)	(169)	(172)	(46)
<b>Net income . . . . .</b>	<b>—</b>	<b>1,043</b>	<b>2,490</b>	<b>664</b>	<b>1,870</b>	<b>925</b>	<b>247</b>
<b>SATORP</b>							
Revenue . . . . .	26,751	33,935	44,573	11,886	20,382	20,309	5,416
Operating costs . . . . .	(24,081)	(31,382)	(42,433)	(11,315)	(19,312)	(20,070)	(5,352)
<b>Operating income . . . . .</b>	<b>2,670</b>	<b>2,553</b>	<b>2,140</b>	<b>571</b>	<b>1,070</b>	<b>239</b>	<b>64</b>
Other income and expenses . . . . .	(1,043)	(1,400)	(1,695)	(452)	(817)	(661)	(177)
<b>Net income . . . . .</b>	<b>1,627</b>	<b>1,153</b>	<b>445</b>	<b>119</b>	<b>253</b>	<b>(422)</b>	<b>(113)</b>
<b>ASC</b>							
Revenue . . . . .	3,143	2,933	3,229	861	1,481	1,410	376
Operating costs . . . . .	(3,090)	(2,831)	(3,176)	(847)	(1,459)	(1,384)	(369)
<b>Operating income . . . . .</b>	<b>53</b>	<b>101</b>	<b>53</b>	<b>14</b>	<b>23</b>	<b>26</b>	<b>7</b>
Other income and expenses . . . . .	225	8	4	1	—	15	4
<b>Net income . . . . .</b>	<b>278</b>	<b>109</b>	<b>56</b>	<b>15</b>	<b>23</b>	<b>41</b>	<b>11</b>

Source: Company.

(1) Motiva's results of operations have been consolidated into the Company's financial statements from 1 May 2017G, prior to which Motiva was accounted for on an equity basis given the Company's then 50% interest.

## 7.10.2 Summary Balance Sheet of the Company's Material Subsidiaries

The following table sets forth the summary balance sheets of the Company's Material Subsidiaries as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 75: Summary balance sheets of the Company's Material Subsidiaries as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>ATC</b>						
Non-current assets	—	6	17	5	820	219
Current assets	12,830	22,125	33,608	8,962	35,105	9,361
<b>Total assets</b>	<b>12,830</b>	<b>22,131</b>	<b>33,625</b>	<b>8,967</b>	<b>35,925</b>	<b>9,580</b>
Non-current liabilities	8	13	5	1	893	238
Current liabilities	6,194	13,642	20,173	5,379	21,794	5,812
<b>Total liabilities</b>	<b>6,202</b>	<b>13,655</b>	<b>20,178</b>	<b>5,380</b>	<b>22,687</b>	<b>6,050</b>
<b>Net assets</b>	<b>6,628</b>	<b>8,476</b>	<b>13,447</b>	<b>3,587</b>	<b>13,238</b>	<b>3,530</b>
<b>Motiva<sup>(1)</sup></b>						
Non-current assets	—	36,516	35,532	9,475	37,338	9,957
Current assets	—	14,386	16,428	4,381	17,988	4,797
<b>Total assets</b>	<b>—</b>	<b>50,902</b>	<b>51,960</b>	<b>13,856</b>	<b>55,326</b>	<b>14,754</b>
Non-current liabilities	—	13,890	10,362	2,763	11,106	2,962
Current liabilities	—	7,407	8,264	2,204	9,971	2,659
<b>Total liabilities</b>	<b>—</b>	<b>21,297</b>	<b>18,626</b>	<b>4,967</b>	<b>21,077</b>	<b>5,621</b>
<b>Net assets</b>	<b>—</b>	<b>29,605</b>	<b>33,334</b>	<b>8,889</b>	<b>34,249</b>	<b>9,133</b>
<b>SATORP</b>						
Non-current assets	45,610	44,207	42,834	11,422	42,283	11,275
Current assets	5,743	7,596	7,225	1,927	6,111	1,630
<b>Total assets</b>	<b>51,353</b>	<b>51,803</b>	<b>50,059</b>	<b>13,349</b>	<b>48,394</b>	<b>12,905</b>
Non-current liabilities	35,251	33,698	31,506	8,402	30,836	8,223
Current liabilities	6,820	8,295	9,414	2,510	9,425	2,513
<b>Total liabilities</b>	<b>42,071</b>	<b>41,993</b>	<b>40,920</b>	<b>10,912</b>	<b>40,261</b>	<b>10,736</b>
<b>Net assets</b>	<b>9,282</b>	<b>9,810</b>	<b>9,139</b>	<b>2,437</b>	<b>8,133</b>	<b>2,169</b>
<b>ASC</b>						
Non-current assets	3,458	10,868	12,053	3,214	12,199	3,253
Current assets	821	896	638	170	315	84
<b>Total assets</b>	<b>4,279</b>	<b>11,764</b>	<b>12,690</b>	<b>3,384</b>	<b>12,514</b>	<b>3,337</b>
Non-current liabilities	4	7,309	8,280	2,208	8,006	2,135
Current liabilities	289	360	263	70	319	85
<b>Total liabilities</b>	<b>293</b>	<b>7,669</b>	<b>8,543</b>	<b>2,278</b>	<b>8,325</b>	<b>2,220</b>
<b>Net assets</b>	<b>3,986</b>	<b>4,095</b>	<b>4,148</b>	<b>1,106</b>	<b>4,189</b>	<b>1,117</b>

Source: Company.

(1) Motiva's results of operations have been consolidated into the Company's financial statements from 1 May 2017G, prior to which Motiva was accounted for on an equity basis given the Company's then 50% interest.

## 7.11 Quantitative and Qualitative Disclosure About Market Risk

### 7.11.1 General

The Company is exposed to a number of market risks arising from its normal business activities. Such market risks principally involve the possibility that changes in commodity prices, currency exchange rates or interest rates will adversely affect the value of its financial assets and liabilities or future cash flows and earnings.

### **7.11.2 Commodity Price Risk**

The Company manages commodity price risks by using commodity swaps as a means of managing price and timing of risks arising from its trading in refined products, NGLs and petrochemicals. The Company operates within policies and procedures designed to ensure that risks, including those related to the default of counterparties, are managed within authorised limits.

### **7.11.3 Risk Management**

The Company uses derivative financial instruments with limited complexity to manage certain risk exposures and does not enter into financial instruments, including derivative financial instruments, for speculative purposes.

### **7.11.4 Foreign Currency Exchange Risk**

Although the Company operates internationally, it has limited exposure to the risk of foreign currency exchange rates as all significant transactions are based in the U.S. Dollar, its functional currency, or hedged. The Company's limited foreign exchange risk is based on future commercial transactions or recognised assets or liabilities denominated in a currency that is not its functional currency. In addition, a substantial portion of the Company's indebtedness and operating expenses are, and the Company expects them to continue to be, denominated in or indexed to U.S. Dollars.

Management actively monitors the fluctuations in foreign currency exchange rates, and the Company engages in hedging activities through the use of currency forward contracts and designated time deposits to manage up to 85% of its foreign exchange exposure. The Company hedges significant transactions that are not based in its functional currency.

### **7.11.5 Interest Rate Risk**

The Company is exposed to interest rate risk from long-term borrowings which are issued at variable and fixed rates. The Company's income and operating cash flows are not subject to interest rate risks because they are substantially independent of changes in the market as the Company's interest-bearing assets consists primarily of short-term time deposits and debt securities classified as fair value through other comprehensive income financial assets.

Interest rate risk of borrowings issued at variable rates is offset by cash and cash equivalents and short-term investments held at variable rates. The Company is exposed to fair value interest rate risk for borrowings issued at fixed rates.

### **7.11.6 Securities Price Risk**

The Company is exposed to a limited amount of risk arising from investments in securities carried out at fair value. The Company regularly reviews its positions in investment in securities considering current and expected future economic trends.

## **7.12 Summary of Significant Accounting Policies**

The 2017G Financial Statements and 2018G Financial Statements were prepared in accordance with IFRS. The 2019G Six Month Interim Period Financial Statements were prepared in accordance with IAS 34. Below is a summary of significant accounting policies applied by the Company in preparing the Financial Statements:

### **7.12.1 Principles of Consolidation and Equity Accounting**

#### **7.12.1.1 Subsidiaries**

The Financial Statements reflect the assets, liabilities and operations of Saudi Aramco and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany balances and transactions, including unrealised profits and losses arising from intragroup transactions, have been eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies with those used by the Company.



The acquisition method of accounting is used to account for business combinations. The cost of the acquisition of a subsidiary is measured as the fair value of the assets given and liabilities incurred or assumed at the date of the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date the assets and liabilities are exchanged, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the acquired share of the identifiable net assets is recorded as goodwill. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to the Company. Acquisition related costs are expensed as incurred.

The Company recognises any non-controlling interest in an acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of income and comprehensive income, the consolidated statement of changes in equity and the consolidated balance sheet, respectively.

If the business combination is achieved in stages, the acquisition date carrying value of the previously held equity interest is re-measured to fair value at the acquisition date with any gains or losses arising from such re-measurement recognised in net income.

#### 7.12.1.2 *Joint Arrangements and Associates*

Under IFRS 11 (Joint Arrangements), an arrangement in which two or more parties have joint control, is a joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Company has both joint operations and joint ventures.

##### (a) **Joint Operations**

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of a joint arrangement. In relation to its interests in joint operations, the Company recognises its:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation; and
- expenses, including its share of any expenses incurred jointly.

##### (b) **Joint Ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost.

The Company's share of results from its joint ventures is recognised within net income, while its share of post-acquisition movements in other comprehensive income is recognised within other comprehensive income. The cumulative effect of these changes is adjusted against the carrying amount of the Company's investment in its joint ventures, which is presented separately in the Company's consolidated balance sheet. When the Company's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured non-current receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Gains and losses on transactions between the Company and joint ventures not realised through a sale to a third party are eliminated to the extent of the Company's interest in the joint ventures. Where necessary, adjustments are made to the financial statements of joint ventures to align their accounting policies with those used by the Company.

The Company's investment in joint ventures includes, when applicable, goodwill identified on acquisition, net of any accumulated impairment loss. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired joint venture at the date of acquisition. Dilution gains and losses arising from investments in joint ventures are recognised in net income.

Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

(c) **Associates**

Associates are entities over which the Company has significant influence. Significant influence is the power to participate in financial and operating policy decisions but with no control or joint control over those policies and is generally reflected by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Company applies the accounting policies for joint ventures detailed above to its associates.

7.12.1.3 *Significant Accounting Judgments and Estimates*

Judgments are applied in the determination of whether control, joint control or significant influence is present with respect to investments in subsidiaries, joint arrangements or associates, respectively. For control, judgment is applied when determining if an entity is controlled by voting rights, potential voting rights or other rights granted through contractual arrangements and includes considering an entity’s purpose and design. For joint control, judgment is applied when assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties by taking decisions about relevant activities through unanimous consent of the parties sharing control. For joint control, judgment is also applied as to whether the joint arrangement is classified as a joint venture or joint operation taking into account specific facts and circumstances, such as the purpose and design of the arrangement, including with respect to its output, its relationship to the parties and its source of cash flows. For significant influence, judgment is applied in its determination by assessing factors such as representation on the board of directors, participation in policy-making processes, material transactions with the entity, interchange of managerial personnel and provision of essential technical information. See Notes 7, 32 and 33 to the 2018G Financial Statements.

7.12.2 *Intangible Assets*

Intangible assets, other than exploration and evaluation costs, consist primarily of brands and trademarks, franchise/customer relationships, computer software and patents and intellectual property. If acquired in a business combination, these intangible assets are recognised at their fair value as at the date of acquisition and, if acquired separately, these intangible assets are recognised at cost. All of these intangible assets are subsequently amortised on a straight line basis over their estimated useful lives. The following table sets forth estimated useful lives, in years, of the principal groups of these intangible assets.

**Table 76: The estimated useful lives of the principal groups of intangible assets**

Intangible Asset	Estimated Useful Life (in years)
Brands and trademarks	10 to 15
Franchise / customer relationships	5 to 10
Computer software	3 to 5
Patents and intellectual property	15

Source: Company.

Amortisation is recorded in depreciation and amortisation in the Company’s consolidated statement of income.

7.12.3 *Exploration and Evaluation*

Exploration and evaluation costs are recorded under the successful efforts method. Under the successful efforts method, geological and geophysical costs are recognised as an expense when incurred and exploration costs associated with exploratory wells are initially capitalised on the Company’s consolidated balance sheet as an intangible asset until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found, these costs continue to be capitalised, subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found and no alternative use of the well is determined, the previously capitalised costs are evaluated for derecognition or tested for impairment.

Exploratory wells remain capitalised while additional appraisal drilling on the potential oil or gas field is performed or while optimum development plans are established. All such capitalised costs are not subject to

amortisation, but at each reporting date are subject to regular technical and management review to confirm the continued intent to develop, or otherwise extract value from, the well. Where such intent no longer exists, the costs are immediately written off to net income. Capitalised exploratory expenditures are not subject to amortisation but at each reporting date are subject to review for impairment indicators.

When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalised costs are transferred to property, plant and equipment.

#### 7.12.4 *Property, Plant and Equipment*

Property, plant and equipment is stated on the Company's consolidated balance sheet at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the construction or acquisition of the asset. Land and construction-in-progress are not depreciated. When a construction-in-progress asset is deemed ready for use as intended by management, depreciation commences.

Subsequent expenditures, including major renovations, are included in an asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognised. All other repair and maintenance expenditures are expensed as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Where the life of expected hydrocarbon reserves substantially exceeds the economic or technical lives of the underlying assets, the straight line method of depreciation is used on a field by field basis. The unit of production method is used for fields where the expected reserve life is approximately equal to or less than the estimated useful lives of the underlying assets. Depletion rates are calculated on the basis of a group of wells or fields with similar characteristics based on proved developed reserves. The estimation of expected reserve lives reflects management's assessment of proved developed reserves and the related depletion strategy on a field by field basis. Depreciation expense on all other assets is calculated using the straight line method to allocate the cost less residual values over the estimated useful lives. Depreciation expense is recorded in the Company's consolidated statement of income.

Depreciation expense is calculated after determining an estimate of an asset's expected useful life and the expected residual value at the end of its useful life. The useful lives and residual values are determined by the Company's management at the time the asset is initially recognised and reviewed annually for appropriateness or when events or conditions occur that impact capitalised costs, hydrocarbon reserves or estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets.

**Table 77: The estimated useful lives of the principal groups of depreciable assets**

Depreciable Asset	Estimated Useful Life (in years)
<b>Crude oil facilities:</b>	
Pipelines and storage tanks . . . . .	12 to 23
Drilling and construction equipment . . . . .	5 to 25
Oil and gas properties . . . . .	15 to 30
Marine equipment . . . . .	13 to 30
<b>Refinery and petrochemical facilities</b> . . . . .	5 to 40
<b>Gas &amp; NGL facilities</b> . . . . .	2 to 30
<b>General service plant:</b>	
Permanent buildings . . . . .	20 to 40
Roads and walkways . . . . .	10 to 20
Aircraft . . . . .	8 to 17
Autos and trucks . . . . .	3 to 20
Office furniture and equipment . . . . .	6 to 8
Computers and computer software . . . . .	3 to 5

Source: Company.

Net gains and losses on disposals of depreciable assets are recognised in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

### 7.12.5 *Impairment of Non-Financial Assets*

The Company assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired, except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either post-tax discounted cash flow models or available data from binding arm's length sales transactions for similar assets, or observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a post-tax risk adjusted discounted cash flow model. The use of post-tax discount rates in determining VIU does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

Impairment losses are recognised as a component of net income. If, in a subsequent period, the amount of a non-goodwill impairment loss decreases, a reversal of the previously recognised impairment loss is recognised in net income.

#### 7.12.5.1 *Significant Accounting Judgments and Estimates*

Impairment tests are undertaken on the basis of the smallest identifiable group of assets (cash generating unit), or individual assets, for which there are largely independent cash inflows. The key assumptions used to determine the different cash generating units involves significant judgment from management.

For the purposes of determining whether impairment of oil, gas and refining assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating future cash flows for its VIU calculations are forecasted future oil and gas prices, expected production volumes, future operating and development costs, refining margins and changes to the discount rate used for the discounted cash flow model. There is an inherent uncertainty over forecasted information and assumptions. Changes in these assumptions and forecasts could impact the recoverable amounts of assets and any calculated impairment and reversals thereof.

### 7.12.6 *Leases*

IFRS 16, Leases, as issued by the IASB in January 2016G, replaced IAS 17, Leases that relates to the recognition, measurement, presentation and disclosure of leases. The Company adopted IFRS 16, using the modified retrospective approach, from its mandatory adoption date of 1 January 2019G.

Until 2018G, leased assets were classified as either finance or operating leases. Payments made under operating leases were charged to net income on a straight-line basis over the period of the lease. On adoption of IFRS 16, right-of-use assets and lease liabilities of SAR 26,051 million were recognised for previously classified operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. For leases previously classified as finance leases, the Company continued to recognise the same carrying amount of the lease asset and lease liability as immediately before transition. There was no impact of adoption of IFRS 16 on the opening retained earnings at 1 January 2019G. The Company and its material subsidiaries have a number of leased assets, none of which are individually material in the context of the Company's business. The leased assets do not, in any way, materially affect the Company's operations and revenue. The Company does not currently expect future lease agreements to be material in the context of the Company's business.

### 7.12.7 *Financial Assets*

#### 7.12.7.1 *Classification*

Management determines the classification of its financial assets based on the business model for managing the relevant financial assets and the contractual terms of the cash flows. The Company's financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

For financial assets measured at fair value, gains and losses will either be recorded in net income or other comprehensive income. For investments in debt securities, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition, due to the strategic

nature of these investments, to account for such equity investments at fair value through other comprehensive income. The Company reclassifies debt securities when and only when its business model for managing those assets changes. Certain revenue contracts provide for provisional pricing at the time of shipment with the final pricing based on an average market price for a particular future period. Such trade receivables are measured at fair value because the contractual cash flows are not solely payments of principal and interest. All other trade receivables meet the criteria for amortised cost measurement under IFRS 9.

#### 7.12.7.2 *Recognition and Derecognition*

Regular purchases and sales of financial assets are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

#### 7.12.7.3 *Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed as a component of net income.

##### (a) **Equity Investments**

The Company subsequently measures all equity investments at fair value. Where the Company has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to net income following the derecognition of the investment. Dividends from such investments continue to be recognised as a component of net income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised as a component of net income.

##### (b) **Debt Securities**

Subsequent measurement of debt securities depends on the Company's business model for managing the relevant asset and the cash flow characteristics of such asset. Debt securities are classified into the following three measurement categories:

###### 1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised as a component of net income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

###### 2) Fair value through other comprehensive income (“FVOCI”)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses which are recognised as a component of net income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to net income. Interest income from these financial assets is included in finance income using the effective interest rate method.

###### 3) Fair value through profit or loss (“FVPL”)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised as a component of net income in the period in which it arises. Financial assets at FVPL are included in non-current

assets unless management intends to dispose of the asset within 12 months from the end of the reporting period, in which case the asset is included in current assets.

(c) **Other Financial Assets**

Other financial assets are classified into the following categories:

1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised as a component of net income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate.

Financial assets at amortised cost comprise of cash and cash equivalents, short-term investments, other assets and receivables, due from the Government and trade receivables other than those subsequently measured at fair value through profit or loss.

2) Fair value through profit or loss

Trade receivables related to contracts with provisional pricing arrangements are subsequently measured at FVPL.

7.12.7.4 *Impairment*

The Company assesses on a forward-looking basis the expected credit losses associated with debt securities carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

7.12.8 ***Derivative Instruments and Hedging Activities***

The Company's use of derivative instruments does not have a material effect on its financial position or results of operations.

7.12.8.1 *Derivative Instruments Classified as Held for Trading*

The Company uses commodity swap derivative financial instruments to manage exposure to price fluctuations which arise on purchase and sale transactions for physical deliveries of various refined products. The swaps are initially recognised, and subsequently re-measured, at fair value and recorded as an asset when the fair value is positive or liability when the fair value is negative, under trade receivables or trade and other payables in the Company's consolidated balance sheet, respectively.

The fair value of the swap is determined in accordance with the Company's derivative valuation policy by reference to the traded price of that instrument on the relevant exchange or over-the-counter markets as at the consolidated balance sheet date. The gain or loss from the changes in the fair value of the swap from its value at inception is recognised in net income.

7.12.8.2 *Derivative Instruments Designated as Hedges*

The Company uses interest rate swaps and currency forward contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments, designated as either fair value or cash flow hedges, are purchased from counterparties of high credit standing and are initially recognised, and subsequently remeasured, at fair value.

At the inception of the hedging transaction, the Company documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction. An assessment is also documented of whether the derivative financial instrument used in a hedging transaction is highly effective in offsetting changes in fair value or cash flows of the hedged item, both at the inception of the hedge and on an ongoing basis.

The fair value of a derivative financial instrument used for hedging purposes is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months; otherwise, it is classified as a non-current asset or liability.

#### (a) **Fair Value Hedges**

A fair value hedge is a hedge of the fair value of a recognised asset or liability or firm commitment and comprises currency forward contracts. The gain or loss from the changes in the fair value of the currency forward contracts is recognised in net income, together with changes in the fair value of the hedged item.

#### (b) **Cash Flow Hedges**

A cash flow hedge is a hedge of a particular risk associated with an asset or liability or a highly probable forecast transaction. Any gain or loss relating to the effective portion of changes in the fair value of interest rate swap contracts is recognised in other comprehensive income, with the ineffective portion recognised immediately in net income.

Gains and losses deferred through other comprehensive income are reclassified to net income at the time the hedged item affects net income. However, when a hedged item is a forecast transaction resulting in the recognition of a non-financial asset or non-financial liability, the gains and losses deferred through other comprehensive income, if any, are included in the initial cost or other carrying amount of the asset or liability.

When a hedging instrument expires, any cumulative gain or loss deferred through other comprehensive income will remain until the forecast transaction is recognised. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred through other comprehensive income is immediately reclassified to net income.

#### 7.12.9 **Income Tax and Zakat**

Income tax expense for the period comprises current and deferred tax expense. Income tax expense is recognised in net income, except to the extent that it relates to items recognised in other comprehensive income. In this case, the related income tax is also recognised in other comprehensive income.

Current income tax expense is calculated primarily on the basis of the Income Tax Law and its amendments. In addition, income tax expense results from taxable income generated by foreign subsidiaries.

Deferred income tax is provided in full using the liability method at tax rates enacted or substantively enacted as at the end of the reporting period and expected to apply when the related deferred income tax is realised or settled, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In estimating such tax consequences, consideration is given to expected future events. Deferred income tax is not provided on initial recognition of an asset or liability in a transaction, other than a business combination that, at the time of the transaction, does not affect either the accounting profit or the taxable profit.

Deferred income tax assets are recognised where future recovery is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax is not provided for taxes on possible future distributions of retained earnings of subsidiaries where the timing of the distribution can be controlled and it is probable that the retained earnings will be substantially reinvested by the entities.

Prior to 2017G, certain domestic affiliates of the Company were subject to zakat on shareholdings held by Saudi/GCC shareholders in accordance with the regulations of the GAZT and, as such, a provision for zakat was recorded in the consolidated statement of income. Effective 1 January 2017G, Kingdom resident companies with shares held directly or indirectly by the Company became subject to the Kingdom's Income Tax Law to the extent of the Company's ownership rather than zakat regulations.

##### 7.12.9.1 *Significant Accounting Judgments and Estimates*

The Company establishes provisions, based on reasonable estimates, for potential claims by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as different interpretations of tax regulations by the taxable entity and the responsible tax authority and the outcome of previous negotiations. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow or in the expected amount to be settled would be recognised in net income in the period in which the change occurs. Deferred income tax assets are recognised only to the extent it is considered probable that those assets are recoverable. This includes an assessment of when those assets are likely to reverse, and a judgment as to whether

or not there will be sufficient taxable income available to offset the assets when they do reverse. This requires assumptions regarding future profitability. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred income tax assets as well as in the amounts recognised in net income in the period in which the change occurs.

Detailed taxation information, including current expense and deferred income tax assets and liabilities, is presented in Sections 7.5.3.4 (*Income Taxes*), 7.6.1.4 (*Deferred Income Tax Assets*) and 7.6.4.2 (*Deferred Income Tax Liabilities*).

#### 7.12.10 *Inventories*

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises all expenses to bring the inventory to its present location and condition and, for hydrocarbon inventories, is determined using the first-in, first-out method. For materials and supplies inventories, cost is determined using the weighted average method less an allowance for disposal of obsolete or surplus materials and supplies. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 7.12.11 *Due from the Government*

The Government compensates the Company through price equalisation and for the past due trade receivables of specified Government and semi-Government customers to whom the Company supplies specified products and services. See Note 2(w) to the 2018G Financial Statements.

Revenue on sales to these specified Government and semi-Government customers is recognised when the Company has transferred the significant risks and rewards of ownership which occurs when product is physically transferred. Once receivables from these customers are past due, these trade receivables are reclassified as a due from the Government current receivable.

Implementing regulations issued by the Government on 28 December 2017G allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government. Balance due from the Government as at 31 December represents amounts to be settled through offset against tax payments.

#### 7.12.12 *Cash and Cash Equivalents*

Cash and cash equivalents includes cash on hand and in banks, together with all highly liquid investments purchased with original maturities of three months or less.

#### 7.12.13 *Financial Liabilities*

Financial liabilities are classified as financial liabilities at FVPL or as financial liabilities measured at amortised cost, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

##### 7.12.13.1 *Financial Liabilities at FVPL*

Derivative financial liabilities are categorised as held for trading unless they are designated as hedges. Derivative financial liabilities held for trading are included in current liabilities under trade and other payables, with gains or losses recognised in net income.

##### 7.12.13.2 *Financial Liabilities at Amortised Cost*

Financial liabilities other than financial liabilities at FVPL are classified as financial liabilities measured at amortised cost net of transaction costs. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Discounting is omitted when the effect is immaterial. Financial liabilities measured at amortised cost are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial liabilities at amortised cost include trade and other payables and borrowings. Financial liabilities are disclosed separately from financial assets in the Company's consolidated balance sheet unless there is a right to offset.



#### 7.12.14 *Borrowing Costs*

Any difference between borrowing proceeds and the redemption value is recognised as finance cost in the consolidated statement of income over the term of the borrowing using the effective interest method.

Borrowing costs are expensed as incurred except for those costs directly attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of the cost of that asset until the asset is complete for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for intended use or sale.

#### 7.12.15 *Post-Employment Benefit Plans*

##### 7.12.15.1 *Pension Plans*

Funded pension plans are non-contributory plans for the majority of employees and are generally funded by payments by the Company to independent trusts or other separate entities. Assets held by the independent trusts and other separate entities are held at their fair value. Valuations of both funded and unfunded plans are performed annually by independent actuaries using the projected unit credit method. The valuations take into account employees' years of service, average or final pensionable remuneration and are discounted to their present value using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit obligation.

The amount recognised in the Company's consolidated balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The periodic pension cost included in operating costs in the Company's consolidated statement of income in respect of defined benefit pension plans primarily represents the increase in the actuarially assessed present value of the obligation for pension benefits based on employee service during the year and the net interest on the net defined benefit liability or asset. Net interest is calculated by multiplying the defined benefit liability and plan assets by the discount rate applied to each plan at the beginning of each year, amended for changes to the defined benefit liability and plan assets as a result of benefit payments or contributions.

Past service costs, representing plan amendments, are recognised immediately as pension costs in the consolidated balance sheet, regardless of the remaining vesting period.

Re-measurements representing actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, and the actual returns on plan assets excluding interest on plan assets, are credited or charged to equity, net of tax, through other comprehensive income.

For defined contribution plans where benefits depend solely on the amount contributed to or due to the employee's account and the returns earned from the investment of those contributions, plan cost is the amount contributed by or due from the Company and is recognised as an expense in the consolidated statement of income.

##### 7.12.15.2 *Other Post-Employment Benefits*

The Company provides certain post-employment healthcare, life insurance and other benefits to retirees and certain former employees. The entitlement is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. To the extent these plans are not fully funded, a liability is recognised in the consolidated balance sheet. Valuations of benefits are performed by independent actuaries.

Such plans follow the same accounting methodology as used for defined benefit pension plans.

##### 7.12.15.3 *Significant Accounting Judgments and Estimates*

The cost of defined benefit pension plans and post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions, which are reviewed annually. Key assumptions include discount rates, future salary increases, future healthcare costs, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. Information about amounts reported in respect of defined benefit plans, assumptions applicable to the plans and their sensitivity to changes are presented in Note 18 to the 2018G Financial Statements included elsewhere in this Prospectus.

#### **7.12.16 Provisions and Contingencies**

Provisions are liabilities where the timing or amount of future expenditures is uncertain. Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are recorded at the best estimate of the present value of the expenditure required to settle the obligation as at the end of the reporting period. Amounts are discounted, unless the effect of discounting is immaterial, using an appropriate discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense within finance costs in the consolidated statement of income.

The Company records a provision and a corresponding increase in asset for decommissioning activities in upstream operations for well plugging and abandonment activities. The obligation for a well is recognised when it is drilled. Decommissioning provisions associated with downstream facilities are generally not recognised, as the potential obligations cannot be measured given their indeterminate settlement dates. The liability for decommissioning obligations will be recognised in the period when sufficient information becomes available to estimate a range of potential settlement dates. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows. The value of the obligation is added to the carrying amount of the related asset and amortised over the useful life of the asset. The increase in the provision due to the passage of time is recognised as finance costs in the consolidated statement of income. Changes in future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows are recognised as a change in the provision and related asset.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where the inflow of economic benefits is probable. Most of the Company's plugging and abandonment activities are many years into the future with technology and costs constantly changing. Estimates of the amounts of a provision are recognised based on current legal and constructive requirements and costs associated to abandon using existing technologies. Actual costs are uncertain and estimates can vary as a result of changes in the scope of the project or relevant laws and regulation. The estimated timing of decommissioning may change due to certain factors, such as reserve life, a decision to terminate operations or changes in legislation. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented. As a result, significant judgment is applied in the initial recognition and subsequent adjustment of the provision and the capitalised cost associated with decommissioning, plugging and abandonment obligations. Any subsequent adjustments to the provision are made prospectively. Detail on the particular assumptions applied when making certain non-current provisions is included in Note 19 to the 2018G Financial Statements included elsewhere in this Prospectus.

#### **7.12.17 Foreign Currency Translation**

The U.S. Dollar is the functional currency of the Company and substantially all of its subsidiaries.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign currency monetary assets or liabilities are translated as at each reporting date using the prevailing reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised as a component of net income. Non-monetary assets and liabilities, other than those measured at fair value, are translated using the exchange rate as at the date of the transactions.

The Company has determined that the U.S. Dollar is the functional currency as a substantial amount of its products are traded in U.S. Dollars in international markets. However, a substantial amount of costs of the Company are denominated in Saudi Riyals which has been exchanged at a fixed rate to the U.S. Dollar since 1986G. A change in the fixed exchange rate could impact the recorded revenue, expenses, assets and liabilities of the Company.

#### **7.12.18 Presentation Currency**

The Financial Statements are presented in Saudi Riyal. The financial position and results of operations of the Company, subsidiaries, joint arrangements and associates that have a functional currency which is different from the presentation currency are translated at reporting date exchange rates and the average exchange rates that

approximate the cumulative effect of rates prevailing at the transaction dates, respectively. All resulting exchange differences are recognised through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to the particular foreign operation is recognised in net income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange as at the reporting date.

Translations from SAR to U.S. Dollar presented as supplementary information in the Financial Statements are for convenience and were calculated at the rate of U.S.\$ 1.00 = SAR 3.75 representing the exchange rate at the relevant balance sheet dates.

#### **7.12.19 Revenue Recognition and Sales Prices**

Revenue from sales of crude oil and related products is recognised upon the satisfaction of performance obligations, which occurs when control transfers to the customer. Control of the products is determined to be transferred to the customer when the title of crude oil and related products passes to the customer, which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue contracts for crude oil and certain related products provide for provisional pricing at the time of shipment, with final pricing based on the average market price for a particular future period. Revenue on these contracts is recorded based on the estimate of the final price at the time control is transferred to the customer. Any difference between the estimate and the final price is recorded as a change in fair value of the related receivable, as part of revenue, in the consolidated statement of income. Where applicable the transaction price is allocated to the individual performance obligations of a contract based on their relative stand-alone selling prices.

#### **7.12.20 Other Income Related to Sales**

The Government compensates the Company through price equalisation for revenue directly forgone as a result of the Company's compliance with local regulations governing domestic sales and distribution of certain liquid products. This compensation reflected in these consolidated financial statements, described as other income related to sales in the year ended 31 December 2017G, is calculated by the Company as the difference between the product's equalisation price and the corresponding domestic regulated price, net of Government fees, in accordance with the implementing regulations issued by the Government on 28 December 2017G which were effective from 1 January 2017G.

This compensation is recorded as other income related to sales, that is taxable, when the Company has transferred to the buyer the significant risks and rewards of ownership which occurs when product is physically transferred. The compensation due from the Government is characterised as a due from the Government current receivable and is recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less impairment losses, if any. See Note 2(n) to the 2018G Financial Statements.

The implementing regulations allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government.

#### **7.12.21 Production Royalties and Excise and Other Taxes**

Royalties to the Government are calculated based on a progressive scheme applied to crude oil and condensate production. An effective royalty rate is applied to production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline rate of 20% applied to Brent prices up to \$70 per barrel, increasing to a marginal rate of 40% applied to Brent prices above \$70 per barrel up to \$100 per barrel and a marginal rate of 50% applied to Brent prices above \$100 per barrel. All such royalties are accounted for as an expense in the consolidated statement of income and are deductible costs for Government income tax calculations.

Effective as at 1 January 2020G, royalty rates on crude oil will be amended. For more information, see Section 4.3 (*Recent Developments*).

#### 7.12.22 *Research and Development*

Development costs that are expected to generate probable future economic benefits are capitalised as intangible assets and amortised over their estimated useful life. All other research and development costs are recognised in net income as incurred.

#### 7.13 **New or Amended Accounting Standards**

As at 30 June 2019G, except with respect to IFRS 16, there were no new or amended standards or interpretations adopted during the period that had a significant impact on the consolidated financial statements. For information on IFRS 16—Leases, see Section 7.12.6 (*Leases*).

The Company adopted for the first time the following IASB pronouncements that are endorsed in the Kingdom, which are effective for annual reporting periods beginning on or after 1 January 2018G:

- (a) IFRS 9, Financial Instruments; and
- (b) IFRS 15, Revenue from Contracts with Customers.

For the purposes of the Financial Statements, the Company has applied IFRS 9 and IFRS 15 to all periods presented therein.

IFRS 9 supersedes IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 supersedes IAS 18, Revenue.

The accounting policies in respect of the application of IFRS 9 and IFRS 15 to the Company are set out in Note 2(c) to the 2018G Financial Statements included elsewhere in this Prospectus.

There are no other standards, amendments or interpretations that are not yet effective that are expected to have a material impact on the Financial Statements.

#### 7.14 **Financial Statement Presentation of Related Party Transactions**

The Company has entered into various related party contracts and transactions. The Directors believe that all such contracts and transactions have been entered into on an arm's length basis. The Company sells crude oil, gas and refined products and provides services to certain Government entities, including branches of the Government, and commercial entities in which the Government has share ownership or control. Other than with respect to compensation arrangements, as at the date of this Prospectus there are no transactions in which any of the Company's Directors or Senior Executives or an immediate family member thereof had or will have a direct or indirect personal interest or were not entered into on an arm's length basis. For more information on the Company's related party transactions, see Section 13.9 (*Related Party Contracts and Transactions*), Note 29 to the 2017G Financial Statements and Note 30 to the 2018G Financial Statements, included elsewhere in this Prospectus.

The following table sets forth the Company's related party transactions for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G.

**Table 78: Related party transactions for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2018G and 2019G**

	Year Ended 31 December				Six Months Ended 30 June		
	2016G	2017G	2018G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	SAR	U.S.\$
	(in millions)						
<b>Joint ventures:</b>							
Revenue from sales .....	13,001	8,006	4,159	1,109	2,514	1,159	309
Other revenue .....	191	79	30	8	15	11	3
Interest income .....	68	90	49	13	30	—	—
Service expenses .....	184	79	26	7	15	11	3
<b>Associates:</b>							
Revenue from sales .....	20,730	28,789	39,356	10,495	19,894	18,386	4,903
Other revenue .....	454	356	281	75	128	56	15
Interest income .....	124	98	113	30	53	71	19
Purchases .....	22,286	27,844	39,480	10,528	19,095	16,211	4,323
Service expenses .....	191	244	195	52	94	56	15
<b>Government and semi-Government agencies:</b>							
Revenue from sales .....	19,966	45,266	50,111	13,363	20,030	23,415	6,244
Other income related to sales .....	—	150,176	152,641	40,704	70,916	63,836	17,023
Other revenue .....	218	1,076	731	195	349	353	94
Purchases .....	3,458	3,266	3,394	905	1,661	1,519	405
Service expenses .....	851	611	323	86	150	188	50

Source: Financial Statements.

The following table sets forth the Company's related party transaction balances as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G.

**Table 79: Related party transaction balances as at 31 December 2016G, 2017G and 2018G and as at 30 June 2019G**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Joint ventures:</b>						
Other assets and receivables .....	1,804	1,930	4	1	855	228
Trade receivables .....	566	—	176	47	304	81
Interest receivable .....	116	203	—	—	—	—
<b>Associates:</b>						
Other assets and receivables .....	3,228	3,220	3,926	1,047	3,293	878
Trade receivables .....	6,728	9,295	10,388	2,770	11,409	3,042
Trade and other payables ...	3,296	4,166	4,492	1,198	4,845	1,292
<b>Government and semi-Government agencies:</b>						
Trade receivables .....	3,608	6,034	8,764	2,337	8,561	2,283
Due from the Government .....	—	38,991	48,140	12,837	46,715	12,457
Trade and other payables ...	2,246	2,629	2,269	605	2,220	592

Source: Financial Statements.

## 8. DIVIDEND DISTRIBUTION POLICY AND DIVIDENDS FRAMEWORK

### 8.1 General

Pursuant to the Bylaws, the Board has sole discretion to declare dividends with respect to the Shares in accordance with the Company's dividend distribution policy. However, it is under no obligation to do so. The amount and frequency of any dividends will depend on a number of factors, including the Company's historic and anticipated earnings and cash flow, the Company's financial obligations and capital requirements, general economic and market conditions and other factors deemed relevant by the Board. The Company's expectations in connection with these factors are subject to numerous assumptions, risks and uncertainties, which may be beyond the Company's control. For a discussion of the risks related to the payment of dividends, see Section 2.3.12 (*Risks related to payment of dividends on the Shares*).

The Company will pay dividends to non-Government Shareholders in SAR and to the Government in U.S. Dollars. All Shares will have the same entitlement to any dividends declared by the Board and any dividends will be distributed in compliance with applicable tax laws. Holders of Offer Shares will be entitled to receive any dividends declared by the Company from (and including) the date of the announcement of the final allocation of Offer Shares to Institutional Subscribers and Individual Investors as set forth in Table 4 (*Expected Offering Timeline*).

The purchase of Offer Shares in this Offering does not entitle the holders thereof to any dividends or distributions declared or paid prior to the date of this Prospectus.

In 2016G, 2017G, 2018G and the first six months of 2019G, the Company's dividend payments to the Government totalled SAR 11.3 billion, SAR 187.8 billion, SAR 217.5 billion (\$58.0 billion) and SAR 174.0 billion (\$46.4 billion), respectively. In August 2019G, the Company declared a dividend of SAR 50.2 billion (\$13.4 billion), which was paid to the Government on 15 August 2019G.

On 1 November 2019G, the Company declared an ordinary dividend of \$13.4 billion with respect to the fiscal quarter ended 30 September 2019G. In addition, the Company will declare an interim (ordinary) dividend of a maximum of \$9.5 billion, after obtaining the necessary approvals from the Board, prior to the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors. These dividends will be paid to the Government (in its capacity as the sole shareholder in the Company) and investors in the Offer Shares will not be entitled to any portion of these dividends regardless of when they are paid, which may be prior to, or after, the date of such allocation. However, if the amount of the declared interim (ordinary) dividend exceeds \$9.5 billion, then the record date for the portion of such dividends that exceeds \$9.5 billion will be the first date on which the Shares are traded on the Exchange and investors in the Offer Shares on such date will be entitled to their pro rata portion of such excess.

Furthermore, subject to this section and Section 8.2 (*Dividend Distribution Policy*), the Company will declare an interim (ordinary) dividend of \$3.9 billion with respect to the period from (and including) the date of allocation of the Offer Shares to the Institutional Subscribers and Individual Investors through 31 December 2019G, which will be paid from the Company's cash-on-hand. The record date for holders of Shares (including holders of Offer Shares allocated in this Offering) entitled to their pro rata portion of such dividend will be determined at the time the dividend is declared. Only holders of Shares (including holders of Offer Shares allocated in this Offering) on the record date will be entitled to a portion of such dividend. If the amount of such declared (interim) dividend exceeds \$3.9 billion, investors in the Offer Shares on the applicable record date will be entitled to their pro rata portion of the full amount of such dividends, including any excess over \$3.9 billion.

### 8.2 Dividend Distribution Policy

The Company's dividend distribution policy was approved by the Selling Shareholder on 27/1/1441H (corresponding to 26 September 2019G) by a written resolution pursuant to Article 31/2 of the Bylaws. The policy states that it is the intention of the Board, in its discretion, to declare dividends on a regular basis with a view to building long-term shareholder value and providing sustainable dividend growth. In addition, the policy provides that dividends may be declared from net profits only after the Company has:

- ensured that dividends are capable of being distributed by the Company with reference to its most current financial statements;
- established any reserves to meet contingencies as determined from time to time at the discretion of the Board; and
- taken into consideration its working capital requirements, near-term liquidity and any other factors or considerations that may be relevant in this regard, including but not limited to the implications of any

dividend distributions on the Company's capital structure, credit ratings and publicly communicated Gearing targets.

### 8.3 Dividends Framework

Subject to Sections 8.1 (*General*) and 8.2 (*Dividend Distribution Policy*), the Board intends to declare aggregate ordinary cash dividends of at least \$75.0 billion with respect to calendar year 2020G, in addition to any potential special dividends. The Board intends to declare dividends quarterly and, based on the annual amount above, the ordinary cash dividend per share with respect to each calendar quarter from 2020G to 2024G is expected to be at least \$0.09375 (based 200,000,000,000 Shares outstanding).

Royal Order No. A/42, dated 26/1/1441H (corresponding to 25 September 2019G) provides that, to the extent that the Board determines that the amount of any quarterly cash dividend declared with respect to calendar years 2020G through 2024G would have been less than \$0.09375 per share (based on 200,000,000,000 Shares outstanding) but for the Government forgoing its rights to such dividend as follows, the Government will forgo its right to receive the portion of cash dividends on its Shares equal to the amount necessary to enable the Company to first pay the minimum quarterly cash dividend amount described above to holders of Shares other than the Government, after which the remaining amount available for distribution with respect to such quarter, as determined by the Board in its discretion, will be paid to the Government.

In addition, (a) dividends forgone will not accrue or otherwise be paid to the Government and (b) the waiver applies to all Shares not held by the Government from time to time, including without limitation any Shares held by shareholders other than the Government that are offered following the Offering and held from 2020G to 2024G.

## 9. USE OF PROCEEDS

The total proceeds from the Offering are estimated at SAR (excluding any proceeds resulting from the exercise of the Over-allotment Option). The Selling Shareholder will receive all of the proceeds of the Offering and will reimburse Saudi Aramco for all fees, costs and expenses it incurs in connection with the Offering. Accordingly, Saudi Aramco will not receive any of the proceeds of the Offering. For further information regarding fees, costs and expenses in connection with the Offering, see Section 16 (*Expenses*).



## 10. CAPITALISATION

The following table sets forth the Company's cash and cash equivalents and capitalisation as at 31 December 2016G, 2017G and 2018G and 30 June 2019G, which has been derived from, and should be read in conjunction with, the Financial Statements, which are set forth in Section 20 (*Financial Statements and Auditor and SABIC Auditor Reports*).

**Table 80: Capitalisation of the Company**

	As at 31 December				As at 30 June	
	2016G	2017G	2018G	2018G	2019G	2019G
	SAR	SAR	SAR	U.S.\$	SAR	U.S.\$
	(in millions)					
<b>Cash and cash equivalents</b> . . . . .	<b>48,075</b>	<b>81,242</b>	<b>183,152</b>	<b>48,841</b>	<b>148,225</b>	<b>39,527</b>
<b>Current liabilities:</b>						
Trade and other payables . . . . .	52,139	62,055	72,286	19,276	68,279	18,208
Income taxes . . . . .	28,541	57,679	69,575	18,553	69,174	18,446
Royalties . . . . .	9,866	20,410	11,862	3,164	12,990	3,464
Borrowings . . . . .	8,982	8,906 <sup>(1)</sup>	29,989	7,997	38,407 <sup>(2)</sup>	10,242 <sup>(2)</sup>
<b>Total current liabilities</b> . . . . .	<b>99,528</b>	<b>149,050</b>	<b>183,712</b>	<b>48,990</b>	<b>188,850</b>	<b>50,360</b>
<b>Non-current liabilities:</b>						
Borrowings . . . . .	43,477	68,692 <sup>(1)</sup>	71,329	19,021	134,472	35,859
Deferred income tax liabilities . . . . .	6,169	6,309	23,877	6,367	26,958	7,189
Post-employment benefit obligations . . . . .	46,785	38,191	23,209	6,189	33,505	8,935
Provisions . . . . .	9,398	13,997	15,606	4,162	16,519 <sup>(2)</sup>	4,405 <sup>(2)</sup>
<b>Total non-current liabilities</b> . . . . .	<b>105,829</b>	<b>127,189</b>	<b>134,021</b>	<b>35,739</b>	<b>211,454</b>	<b>56,388</b>
<b>Total equity:</b>						
Share capital . . . . .	—	—	60,000	16,000	60,000	16,000
Stated capital . . . . .	60,000	60,000	—	—	—	—
Additional paid-in capital . . . . .	26,981	26,981	26,981	7,195	26,981	7,195
Retained earnings						
Unappropriated . . . . .	631,481	715,107	920,625	245,500	918,011	244,803
Appropriated . . . . .	6,000	6,000	6,000	1,600	6,000	1,600
Other reserves . . . . .	128	5,670	3,176	847	1,959	522
Shareholder's equity . . . . .	724,590	813,758	1,016,782	271,142	1,012,951	270,120
Non-controlling interests . . . . .	10,756	12,556	11,653	3,107	11,176	2,980
<b>Total equity</b> . . . . .	<b>735,346</b>	<b>826,314</b>	<b>1,028,435</b>	<b>274,249</b>	<b>1,024,127</b>	<b>273,100</b>
<b>Total capitalisation</b> . . . . .	<b>940,703</b>	<b>1,102,553</b>	<b>1,346,168</b>	<b>358,978</b>	<b>1,424,431</b>	<b>379,848</b>

Source: Financial Statements.

(1) The Company adopted IFRS 15 on 1 January 2018G. As a result, in the preparation of its 2018G Financial Statements, the Company reclassified certain 2017G results that appear in the 2017G comparative column of the 2018G Financial Statements.

(2) The Company adopted IFRS 16 on 1 January 2019G using a modified retrospective approach. As a result, in the preparation of the 2019G Six Month Interim Period Financial Statements, the Company applied prospectively, starting 1 January 2019G, the new classification and measurement models for lease contracts and consequently 2018G comparative information was not restated. For further information on the impact of IFRS 16 on the Company's financial statements, see page F-153.

## **11. STATEMENTS BY EXPERTS**

Each of the Advisors, the Consultants, the Auditor and the SABIC Auditor, the names of whom appear on pages xiii to xxi, has given and, as at the date of this Prospectus, not withdrawn, its written consent to the publication of its name, address and logo, and the statements attributed to it in the context in which they appear in this Prospectus, and it does not, nor does its employees, or any of their relatives or any of its affiliates, have any shareholding or interest of any kind in Saudi Aramco or its subsidiaries as at the date of this Prospectus.

## 12. DECLARATIONS IN RESPECT OF DIRECTORS

The Directors declare the following:

- (a) other than as described in Section 4.3 (*Recent Developments*), there has been no interruption in the Company's business or that of its Subsidiaries during the 12 month period preceding the date of this Prospectus which may have, or has had, a significant effect on their financial position;
- (b) no commissions, discounts, brokerage fees or other non-cash compensation have been granted by the Company in connection with the issue or sale of any securities within the three years immediately preceding the date of this Prospectus;
- (c) there has been no material adverse change in the business or financial position of the Company in the three years immediately preceding the date of filing the application for registration and offering of the securities subject to this Prospectus with the CMA and during the period from the end of the period covered in the external auditors' report to the approval date of this Prospectus by the CMA;
- (d) neither they nor any of the Senior Executives or the Secretary or any of their relatives hold shares or debt instruments or have interest of any kind in the Company or any of the Company's Subsidiaries or any interest in any matters that may have an impact on the Company's operations and none of the Company's Directors, Senior Executives or any of their relatives have entered into a transaction on a non-arm's length basis or in which he or she has or will have a direct or indirect personal interest, and the Company is prohibited from granting a loan to a Director or a Senior Executive or guaranteeing a loan entered into by a Director;
- (e) the Company has working capital sufficient for at least the next 12 months immediately following the date of this Prospectus;
- (f) the Offering does not constitute a breach of the relevant laws and regulations in the Kingdom;
- (g) the Offering does not constitute a breach of any contract/agreement entered into by the Company;
- (h) all legal information concerning the Company has been disclosed in this Prospectus;
- (i) the Company is not subject to any claims or any other type of legal proceedings that could individually or collectively have a material effect on the business of the Company or its financial position;
- (j) the Directors are not subject to any claims, litigious cases or any other type of legal proceedings that could individually or collectively have a material effect on the business of the Company or its subsidiaries or their financial position;
- (k) the financial information presented in the Prospectus is extracted without material change from the audited financial statements as at and for the years ended 31 December 2017G and 2018G and the unaudited interim financial statements as at and for the six months ended 30 June 2019G;
- (l) none of the share capital of the Company or its Material Subsidiaries is under option;
- (m) they have not, nor has any of the Senior Executives or the Secretary, at any time been declared bankrupt or been subject to bankruptcy proceedings;
- (n) none of the companies in which any of the Directors, Senior Executives or Secretary was employed in a managerial or supervisory capacity, was declared insolvent or bankrupt during the past five years preceding the date of this Prospectus; and
- (o) neither the Company nor its Subsidiaries have any material mortgages, rights or charges on its assets or properties as at the date of this Prospectus, other than as described in Section 13.6 (*Financing Agreements and Guarantees*) of this Prospectus.

## 13. LEGAL INFORMATION

### 13.1 The Company

Saudi Aramco was established in the Kingdom as a company with limited liability by virtue of Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) to assume the privileges and rights of its predecessor. It became a Saudi joint stock company as at 14/4/1439H (corresponding to 1 January 2018G) pursuant to Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G). Saudi Aramco's registered head office is located at P.O. Box 5000, Dhahran 31311, Kingdom of Saudi Arabia. Its share capital is sixty billion Saudi Riyals (SAR 60,000,000,000), consisting of two hundred billion (200,000,000,000) fully paid ordinary shares with no par value, and is wholly owned by the Government. Saudi Aramco's principal activities consist of two primary operating segments, upstream and downstream, which are supported by its corporate segment (for further details, please see Section 4.7 (*Operating Segments*)).

### 13.2 Shareholding Structure

The following table summarises the ownership structure of Saudi Aramco before and after the Offering.

**Table 81: Direct Ownership Structure of Saudi Aramco Pre- and Post-Offering**

Shareholder	Pre-Offering			Post-Offering <sup>(1)</sup>		
	No. of Shares	Share Capital (SAR)	Percent	No. of Shares <sup>(2)</sup>	Share Capital (SAR)	Percent
Government <sup>(3)</sup> .....	200,000,000,000	60,000,000,000	100%			
Public .....	—	—	—			
Company Treasury <sup>(4)</sup> .....	—	—	—			
<b>Total</b> .....	<b>200,000,000,000</b>	<b>60,000,000,000</b>	<b>100%</b>	<b>200,000,000,000</b>	<b>60,000,000,000</b>	<b>100%</b>

Source: Company.

(1) To be determined at the end of the Book-Building Period.

(2) Senior Executives may purchase Shares from the Government concurrently with the consummation of the Offering. Such Shares will not be counted towards the public float.

(3) The Selling Shareholder undertakes to disclose details of any disposition of its Shares, upon completion of such disposition, after the commencement of trading of the Shares on the Exchange.

(4) Concurrently with the closing of the Offering, the Government will sell Shares with a value of \$1.0 billion (based on the Final Offer Price) to the Company for use under the Saudi Aramco Share Plan. See Section 6.9 (*Saudi Aramco Share Plan*).

The sole selling shareholder in the Offering is the Government.

### 13.3 Subsidiaries

The Company holds direct and indirect ownership interests in 140 domestic and foreign subsidiaries. The following chart reflects the structure of Saudi Aramco's Subsidiaries as at 30 September 2019G.



### 13.3.1 Material Subsidiaries

Saudi Aramco holds, directly or indirectly, ownership interests in four subsidiaries that are not public companies and which accounted for 2% or more of the Company’s assets, revenue or net income calculated based on the 2018G Financial Statements or are otherwise significant to the Company (each a “**Material Subsidiary**”). In addition, the majority of the Company’s assets are located in the Kingdom. The following table sets out the details of each Material Subsidiary.

**Table 82: Material Subsidiaries**

Name of Entity	Jurisdiction of Formation	Direct Interest (%)	Indirect Interest (%)	Remaining Ownership
Aramco Services Company	Delaware	100%	—	N/A
Motiva Enterprises LLC	Delaware	—	100% <sup>(1)</sup>	N/A
Aramco Trading Company	Saudi Arabia	100%	—	N/A
Saudi Aramco Total Refining and Petrochemical Company (SATORP)	Saudi Arabia	62.5%	—	37.5% is held by Total Refining & Chemicals Saudi Arabia S.A.S.

Source: Company.

(1) Saudi Refining Inc. and Aramco Financial Services hold a 98% and 2% ownership stake, respectively. For further information, see Section 13.3.1.2 (*Motiva Enterprises LLC*).

#### 13.3.1.1 Aramco Services Company

Aramco Services Company (“**ASC**”) is a corporation registered in Delaware, United States of America, under the certificate of incorporation dated 16/12/1369H (corresponding to 29 September 1950G). The head office of ASC is located in 100 West Tenth Street, Wilmington, Delaware, United States of America. The current capital of ASC is \$1,000, divided into 100 shares, with a fully paid nominal value of \$10 per share. The following table summarises the ownership structure of ASC.

**Table 83: Current ownership structure of ASC**

Shareholders	No. of Shares	Nominal Value (U.S.\$)	Value of Shares (U.S.\$)	Ownership Percentage
Saudi Aramco .....	<u>100</u>	10	<u>1,000</u>	<u>100%</u>
<b>Total</b> .....	<b><u>100</u></b>	<b>10</b>	<b><u>1,000</u></b>	<b><u>100%</u></b>

Source: Company.

The principal activities of ASC include performing engineering, purchasing, recruitment, research and development, and other services for the Company and affiliated companies.

#### 13.3.1.2 Motiva Enterprises LLC

Motiva is a limited liability company registered in Delaware, United States of America, under the certificate of incorporation dated 30/5/1409H (corresponding to 7 January 1989G). The head office of Motiva is located in the Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware, United States of America. The current capital of Motiva is \$9.1 billion. Motiva is the only Material Subsidiary located outside the Kingdom, satisfying the asset test described in Section 13.3.1 (*Material Subsidiaries*). Saudi Refining Inc. and Aramco Financial Services hold a 98% and 2% ownership stake, respectively. The following table summarises the ownership structure of Motiva.

**Table 84: Current ownership structure of Motiva**

Shareholders	No. of Shares <sup>1</sup>	Nominal Value (U.S.\$) <sup>1</sup>	Value of Shares (U.S.\$)	Ownership Percentage
Saudi Refining, Inc. ....	—	—	—	98%
Aramco Financial Services Company .....	—	—	—	2%
<b>Total</b> .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>100%</u>

Source: Company.

(1) The capital of Motiva is not divided into a specific number of shares.

The principal activities of Motiva including engaging in refining and retail operations and Motiva may engage in any lawful act or activity for which limited liability companies may be organized.

### 13.3.1.3 Aramco Trading Company

Aramco Trading Company (“ATC”) is a limited liability company registered in Dhahran, Kingdom of Saudi Arabia under commercial registration No. 2052001749 dated 7/6/1432H (corresponding to 10 May 2011G). The head office of ATC is located in the Third Floor, East Wing, Al-Midra Tower, P.O. Box 5000, Dhahran 31311, Kingdom of Saudi Arabia. The current capital of ATC is SAR 131,250,000. The following table summarises the ownership structure of ATC.

**Table 85: Current ownership structure of ATC**

Shareholders	No. of Shares <sup>1</sup>	Nominal Value (SAR) <sup>1</sup>	Value of Shares (SAR)	Ownership Percentage
Saudi Aramco .....	—	—	—	100%
<b>Total</b> .....	<u>—</u>	<u>—</u>	<u>—</u>	<u>100%</u>

Source: Company.

(1) The capital of ATC is not divided into a specific number of shares.

The principal activities of ATC include engaging in the sale, purchase and trading of refined, NGL and bulk petrochemical products and sulphur and chartering of maritime vessels.

### 13.3.1.4 Saudi Aramco Total Refining and Petrochemical Company

SATORP is a limited liability company registered in Jubail, Kingdom of Saudi Arabia under commercial registration No. 2055009745 dated 6/9/1429H (corresponding to 6 September 2008G). The head office of SATORP is located in Jubail Industrial City, P.O. Box 151, Jubail 31952, Kingdom of Saudi Arabia. The current capital of SATORP is SAR 8,250,000,000, divided into 825,000,000 shares with a fully paid nominal value of SAR 10 per share. The following table summarises the ownership structure of SATORP.

**Table 86: Current ownership structure of SATORP**

Shareholders	No. of Shares	Nominal Value (SAR)	Value of Shares (SAR)	Ownership Percentage
Saudi Aramco .....	515,625,000	10	5,156,250,000	62.5%
Total Refining & Chemicals Saudi Arabia S.A.S. ...	309,375,000	10	3,093,750,000	37.5%
<b>Total</b> .....	<u>825,000,000</u>	<u>10</u>	<u>8,250,000,000</u>	<u>100%</u>

Source: Company.

The principal activities of SATORP include producing refined and petrochemical products.

### 13.3.2 Other Subsidiaries

#### 13.3.2.1 Rabigh Refining and Petrochemical Company

Petro Rabigh is a Saudi joint stock company registered in Jeddah, Kingdom of Saudi Arabia under commercial registration No. 4602002161 dated 15/8/1426H (corresponding to 10 September 2005G). As at 24 October 2019G, its capital is SAR 8,760,000,000 divided into 876,000,000 shares and it is headquartered in

Rabigh, Jeddah, Kingdom of Saudi Arabia. Petro Rabigh is a listed company on the Exchange. The following table summarises the ownership structure of Petro Rabigh.

**Table 87: Current ownership structure of Petro Rabigh**

Shareholders	No. of Shares	Nominal Value (SAR)	Value of Shares (SAR)	Ownership Percentage
Saudi Aramco .....	328,500,000	10	3,285,000,000	37.5%
Sumitomo Chemical Co., Ltd. ....	328,500,000	10	3,285,000,000	37.5%
Other .....	219,000,000	10	2,135,598,790	25%
<b>Total</b> .....	<b>825,000,000</b>	<b>10</b>	<b>8,250,000,000</b>	<b>100%</b>

Source: Tadawul.

The main activities of Petro Rabigh include the development, construction and operation of an integrated petroleum refining and petrochemical complex, including the manufacture of refined petroleum products, petrochemical and hydrocarbon products.

#### 13.3.2.2 S-Oil Corporation

S-Oil is a company established in South Korea in 1976, and its authorised capital consists of 240,000,000 shares with a par value of 2,500 Korean Won per share, equivalent to SAR 7.91, divided into 180,000,000 ordinary shares and 60,000,000 preferred shares. Out of its authorised capital of 240,000,000 shares, 112,582,792 ordinary shares have been issued. S-Oil is headquartered in Seoul, South Korea. S-Oil is a listed company on the Korean Stock Exchange. The following table summarises the ownership structure of S-Oil.

**Table 88: Current ownership structure of S-Oil**

Shareholders	No. of Shares	Ownership Percentage
Saudi Aramco <sup>(1)</sup> .....	71,387,560	63.24%
Other .....	41,192,440	36.76%
<b>Total</b> .....	<b>112,582,792</b>	<b>100.00%</b>

Source: S-Oil

(1) This includes direct and indirect ownership.

S-Oil's main activities include the manufacture and sale of refined products, lubricants and petrochemicals, and the import and export of crude oil products.

#### 13.4 Government Consents, Licences and Certificates

The Company holds several operational and regulatory licences and certificates from the relevant competent authorities that are periodically renewed. The following table lists the licences and certificates currently held by the Company that the Directors consider material in the context of the Company's business.



**Table 89: Details of material regulatory and operational licences and certificates obtained by the Company**

Company	Issuing Authority	Licence	Effective Date	Expiry Date
Saudi Arabian Oil Company	The Government	The Concession	24 December 2017G	Initial period of 40 years, with expiry date of 24 December 2057G, which will be extended by the Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. In addition, the Concession may be extended for an additional 40 years beyond the prior 60 year period subject to the Company and the Government agreeing on the terms of the extension.
SATORP	The Government	SATORP Feedstock Allocation letters	Various	Ministerial Letters in connection with the supply of gas products to SATORP.

Source: Company.

### 13.5 Material Agreements

The Company has entered into a number of agreements for the purposes of its business. The following is a summary of those agreements that the Directors consider material or important or which may otherwise influence an investor's decision to invest in the Shares. The Directors believe that all such agreements, in addition to the key provisions thereunder, have been included in this Section and that there are no other agreements that are material in the context of the Company's business. These summaries do not purport to describe all the applicable terms and conditions of such agreements and are qualified in their entirety by the respective agreements. In addition, please see also Sections 13.6 (*Financing Agreements and Guarantees*), 13.7 (*Insurance Policies*) and 13.8.2 (*Lease Agreements*) for details regarding the Company's financing agreements, insurance policies and lease agreements.

#### 13.5.1 The Concession

##### 13.5.1.1 Background

On 4/2/1352H (corresponding to 29 May 1933G), the Arabian American Oil Company Concession Agreement was ratified, pursuant to which the Government granted the Company's predecessors certain exclusive rights, including the right to explore, drill, recover and treat crude oil and other Hydrocarbons located within certain areas of the Kingdom (which were revised and grew over time), with limited territorial exceptions. Pursuant to Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G) approving the Company's original articles in 1988G, the Company has enjoyed all the privileges and rights provided under the Original Concession. Effective 6/4/1439H (corresponding to 24 December 2017G), the Government, represented by the Minister of Energy, Industry and Mineral Resources, and the Company entered into the Concession, which replaced and superseded in its entirety the Original Concession on the Concession Effective Date. Further, on 20/1/1441H (corresponding to 19 September 2019G), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy, and the Company entered into the Concession Amendment, with effect from 1 January 2020G).

##### 13.5.1.2 Grant of Rights

The Government grants the Company the following rights to be exercised at the Company's own responsibility during the term of the Concession:

- the exclusive right to explore, drill, prospect, appraise, develop, extract, recover and produce Hydrocarbons in the Concession Area;

- the non-exclusive right to manufacture, refine and treat production and to market, sell, transport and export such production;
- the exclusive right to market and distribute Hydrocarbons, petroleum products and LPG in the Kingdom, with the Company's commitment to meeting all the domestic market's needs for such products in accordance with the consumption requirements thereof through domestic production or imports in accordance with laws issued by the Government;
- the right to build, own and operate relevant facilities and assets as may be necessary or desirable to perform the Company's operations within the Reserved Areas;
- certain rights to acquire and use land, water and other natural products in connection with the Company's operations;
- the right to purchase, lease, import or otherwise obtain all materials, equipment and any other supplies required for the Company's operations;
- the right to conduct such other activity related to the foregoing subject to the provisions of the Concession and applicable law; and
- the right to receive Government assistance in securing the rights granted in the Concession, obtaining permits, licences and other special approvals and obtaining access, rights of way and water rights from third parties necessary for the Company's operations.

Under the Concession, the Company is required to obtain the necessary licences, permits and approvals that may be required pursuant to the Hydrocarbons Law, the Law of Gas Supplies and Pricing and the regulations issued pursuant to these laws. All Hydrocarbons in the Kingdom are owned by the Kingdom, and upon extraction or recovery of such Hydrocarbons by the Company, title to such Hydrocarbons shall automatically pass to the Company at the ownership transfer point. The Company has no rights to any natural resources existing in the Concession Area other than Hydrocarbons except as otherwise provided in the Concession.

The rights granted to the Company under the Concession are subject to the Hydrocarbons Law and other applicable law, including production decisions issued by the Government pursuant to its sovereign authority. The Company may not sell to any entity any Hydrocarbons or derivatives therefrom in violation of decisions the Government considers necessary for the protection of supreme security interests for the Kingdom in times of war or other emergency in international relations.

#### 13.5.1.3 *Term*

The Concession will remain effective for 40 years from the Concession Effective Date, unless terminated earlier in accordance with its terms.

The Government will issue a decision to extend the Concession for a period of 20 years on the 30th anniversary of the Concession Effective Date, provided the Company has fulfilled the following conditions: (a) the Company has exerted reasonable efforts to maximise reserves and their recovery in the Concession Area, taking into consideration production decisions and Hydrocarbons market conditions; (b) the Company has conducted its operations in a manner that (i) is economically efficient, (ii) enhances the productivity of the reservoirs in the long-term in the Concession Area and (iii) supports good management of Hydrocarbons, in all cases, according to the Hydrocarbons Law; and (c) the Company generally has conducted its activities and operations in the Kingdom in an economically efficient manner thereby enhancing the efficiency of the Kingdom's economy.

If the Concession is extended as described in the previous paragraph, the Concession may be amended and extended for an additional 40 years following the 60th anniversary of the Concession Effective Date, if the Company provides the Government with notice confirming its intent to extend the Concession, at any time from the beginning of the 50th anniversary until the end of the 53rd anniversary of the Concession Effective Date, provided that the parties undertake exclusive negotiations for a two year period (which may be extended or reduced by the parties), commencing at the end of the 53rd anniversary of the Concession Effective Date, to reach an agreement on the terms and conditions of such amendment and extension. If the Government and the Company are unable to reach agreement on the amendment and extension during such exclusive negotiation period, and the Government elects to negotiate with any third party to enter into an agreement with respect to any Hydrocarbons activities or operations in the Concession Area, the Company will have a priority right to enter into an agreement with the Government under the same terms and conditions as agreed between the Government and such third party, provided that the Company notifies the Government of its desire to exercise the priority

right within 120 days of its receipt of a written notice from the Government that includes the entire draft agreement with such third party with respect to such Hydrocarbons activities and operations.

#### 13.5.1.4 *Conduct of Company's Operations*

Pursuant to the Concession, all Company contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise are required to be on a commercial basis.

The Company is required to conduct its operations efficiently to achieve the optimal economic balance between reducing the cost of production and raising the recovery rates of Hydrocarbons.

Pursuant to applicable law and international industry standards, the Company will (a) take all reasonable precautions to limit the damage to water and Hydrocarbons bearing formations it may encounter during operations or upon abandonment of any well, (b) take all reasonable precautions to protect against fire and waste of Hydrocarbons and water and (c) notify the Government as soon as possible of any damage that requires intervention affecting the fields or facilities and take all necessary measures to stop such damage.

#### 13.5.1.5 *Government Designated Areas*

The Government may designate a "Government Designated Area" for any purposes specified by the Government, such as tourism areas, national parks, industrial zones, urban planning areas and mining licence areas, in a manner that shall not hinder the Company's operations. The following will be deemed Government Designated Areas: areas located outside the Reserved Areas that are occupied by cities, streets, airports, ports, railways, public roads, public transportation, public communications, water projects, public utilities, military installations, economic and industrial cities, agricultural projects, wildlife protected areas, areas designated for worship and historical and archaeological areas. If the studies conducted by the Company show the possibility of Hydrocarbons being under the surface of any of these Government Designated Areas, the Government may allow the Company to carry out its operations as agreed with the Company.

#### 13.5.1.6 *Discoveries and Reserved Areas*

The Company will inform the Government in writing of any new discovery of Hydrocarbons in the Concession Area. If the Company elects to reserve any part of the Concession Area for its operations, the Company will provide a written request to the Government specifying (a) the location of such area and (b) the Company's intended use of such area. Upon receipt of such request, the Government will take such action as it deems appropriate.

Should the area which the Company desires to reserve fall within a Government Designated Area, the Government will cooperate with the Company to allow the Company to use such area for the production of the Hydrocarbons discovered therein and for the conduct of its operations with due regard to limiting the impact of its operations on such area's intended use. The Government will not issue any deeds or licences or the like with respect to any land located within the Reserved Areas.

The Company will compensate any person (other than the Company) that holds an original property right on land in a Reserved Area pursuant to a deed that meets all legal and regulatory requirements obtained prior to the date such area has been so reserved (a "**Land Occupant**") in a Reserved Area for depriving such Land Occupant of its customary use of the land, provided that such rights held by any such person are valid and enforceable against the Company.

The Company will not hinder a Land Occupant's use of or access to its land in the Reserved Areas, provided that such use or access will not hinder the Company's operations, or otherwise the Land Occupant will be entitled to compensation for being deprived of its customary use of the land. In the event that other rights exist within the Reserved Areas that would impede or disrupt the Company's operations, the Government will intervene to protect the rights of the Company under the Concession.

The Government may by written notice instruct the Company to assess a Gas Field Development Project, following which the Company will (a) commence assessment of the Gas Field Development Area, including, as appropriate, conducting exploration operations, and (b) determine if the projected volumes of natural gas to be produced by such Gas Field Development Project will be necessary to meet local demand. Should the Company elect to develop any such field, it will prepare a development plan that describes the scope of development and the proposed economic terms relating to such project and submit such plan for review by the Government.

If the Company elects not to undertake any Gas Field Development Project as identified by the Government, or if the Government and the Company fail to agree on a development plan for such Gas Field Development Project within a period of up to five years (or such longer period as specified by the Government) after the date of the notice instructing the Company to assess the Gas Field Development Project, the Company will relinquish such field, if independent, and areas reasonably related thereto located within the Gas Field Development Area, provided that the Company need not relinquish any portion of the relevant Gas Field Development Area if: (a) natural gas volumes from such Gas Field Development Project, based on governmental estimates, are not necessary to meet local demand for gas; (b) the Gas Field Development Area is located within the areas of the Company's operations; or (c) the Gas Field Development Project would otherwise hinder, affect or interfere with the Company's operations or the development of oil and condensate fields or reservoirs.

The Company will relinquish any part of the Concession Area that (a) studies conducted by the Company establish does not contain Hydrocarbons or (b) the Company determines not to be feasible for exploration operations during the term of the Concession.

#### 13.5.1.7 *Royalty and Taxes*

Through 31 December 2016G, the royalty payable to the Government under the Original Concession consisted of an amount equal to (a) 20% of the value of crude oil and the crude equivalent of refined products sold as exports, (b) 12.5% of the proceeds received from the sale of gas, (c) 12.5% of \$0.035 per mmBTU of natural gas processed in the production of gas derivatives and (d) a certain amount per quantity of crude oil and the crude equivalent of refined products sold in-Kingdom. Pursuant to these requirements, the Company incurred royalties of SAR 101.3 billion (\$27.0 billion) for the year ended 31 December 2016G.

Commencing 1 January 2017G, royalties payable to the Government with respect to the Company's operations are calculated as follows:

- With respect to the Company's production of crude oil and condensates, including those used by the Company in its operations, royalties are calculated based on a progressive scheme applied to crude oil and condensate production value. Production will be valued based on the Company's official selling prices. An effective royalty rate will be applied to production value and will be based each month on the average daily price quotes for Brent crude on the Intercontinental Exchange (or any successor exchange) for each day during such period. The effective royalty rate will be determined based on a baseline rate of 20% applied to the value of production at prices up to \$70 per barrel, a marginal rate of 40% applied to the value of production at prices above \$70 per barrel up to \$100 per barrel and a marginal rate of 50% applied to the value of production at prices above \$100 per barrel.
- With respect to the Company's production of natural gas, ethane and NGLs, excluding those volumes used by the Company for upstream operations and related operations (including transportation, pipelines and storage and export facilities, fractionation plants, gas and NGLs plants), royalties are calculated based on a flat royalty rate of 12.5% applied to a factor established by the Ministry of Energy. As at the date of this Prospectus, the factor to which this royalty is applied is \$0.035 per mmBTU for NGLs (propane, butane and natural gasoline) and \$0.00 per mmBTU for natural gas (methane) and ethane. The Minister of Energy may amend the price on which such values are based, taking into account the price that achieves the targeted internal rate of return set by the Minister of Energy in coordination with the Company.

Commencing 1 January 2020G, the Concession Amendment will amend the royalties payable to the Government with respect to the Company's production of crude oil and condensates, including those used by the Company in its operations, so that the effective royalty rate will be determined based on a baseline rate of 15% applied to the value of production at prices up to \$70 per barrel, a marginal rate of 45% applied to the value of production at prices above \$70 per barrel up to \$100 per barrel and a marginal rate of 80% applied to the value of production at prices above \$100 per barrel.

In order to increase gas production to meet the needs of the Kingdom, the Government may choose not to collect royalties on natural gas, NGLs (including ethane) and condensates for a period specified by the Government with respect to any field as required by the economics of such field's development. Pursuant to the Ministry of Energy's authority under the Concession, on 25 February 2018G, the Ministry of Energy decided not to collect royalties from Saudi Aramco on condensate production for a grace period of five years beginning on 1 January 2018G. On 17 September 2019G, the Ministry of Energy issued Ministerial Resolution No. 1/422/1441, dated 18/1/1441H (corresponding to 17 September 2019G), which extends the period for which the Company will not be obligated to pay royalties on condensate production after the current five-year period for an additional 10-year period, which may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development do not warrant such an extension.

The Government has the option to take all or part of the royalty in kind from the produced Hydrocarbons.

The Company is subject to the Kingdom's Income Tax Law. Income tax is due for payment monthly.

#### 13.5.1.8 *Set-off*

The set-off mechanism between the amounts due and payable to the Company by the Government and the amounts due and payable by the Company to the Government will be pursuant to applicable law.

#### 13.5.1.9 *Preservation of Archaeological Sites*

The Company will take all reasonable measures to preserve archaeological sites that may be in its area of operations and will provide protection for archaeological artefacts it finds during its operations.

#### 13.5.1.10 *Books, Records and Inspection*

The Company will maintain and retain at any of its offices within the Kingdom, with respect to the Company's operations in the Kingdom, all operational, financial, tax and other books and records for each period as required by applicable law. The Company's financial books and records will be prepared in accordance with the IFRS as endorsed by SOCPA or as determined by the Government from time to time. The Government and its authorised agents and representatives have the right, pursuant to applicable law, to review, inspect and audit all technical, operational, financial, tax and other records of the Company, including the right to examine the systems for calibrating, measuring and weighing of Hydrocarbons and to examine and test the instruments used therefor.

The Company accounts will be held in U.S. Dollars, which is the controlling currency of the accounts for purposes of the Concession.

#### 13.5.1.11 *Human Resources*

The Company will employ Saudi Arabian nationals in all posts for which they have necessary qualifications, knowledge and experience, but may employ qualified non-Saudi Arabian nationals in posts for which they have the necessary qualifications and as necessary for the Company's ability to compete and innovate in the event such posts could not be filled by Saudi Arabian nationals with the same qualifications and experience. The Company will deliver to the Government, upon the Government's request, a report specifying the procedures to be implemented to increase the number of employed Saudi Arabian nationals in order to meet the percentage of Saudi Arabian nationals required by applicable law. The Company is required to implement programmes to train employed Saudi Arabian nationals in aspects of the Hydrocarbons industry and other associated specialities in order to fulfil the Company's goals.

#### 13.5.1.12 *Access; Non-Interference*

The Government has the right to inspect the Company's operations related to exploration, prospecting, exploitation, manufacturing, refining, transportation and marketing. In coordination with the Company, and taking into account the Company's use conditions and safety rules, the instructions issued by the High Commission for Industrial Security at the Ministry of Interior and such other applicable safety and security rules and regulations, the Government may access installations and facilities utilised in the Company's operations within the Reserved Areas for inspection purposes and in a manner that does not hinder or interfere with the Company's operations.

#### 13.5.1.13 *Insurance*

The Company will provide such insurance coverage for its assets as it deems appropriate to meet the requirements of international industry standards and applicable law. The Company is entitled to appoint affiliates as primary or additional insurers and/or as reinsurers, or to be self-insured.

#### 13.5.1.14 *Certain Obligations and Rights of the Parties*

In no event will the exercise of any rights to acquire or use land, water or other natural products by the Company imply any assignment of title by the Government or deprive the Government of the use of such rights in a manner that will not hinder or interfere with the Company's operations. The Government will assist the Company in securing, protecting and enforcing such rights to facilitate the orderly conduct of the Company's operations in accordance with the Concession, including the acquisition by the Company of necessary rights to any land in the Concession Area required for the Company's exploration operations, provided that the Company compensates, in

accordance with applicable law, any person who owns the land pursuant to a deed that meets all legal and regulatory requirements and that is issued prior to the Company's commencement of the exploration operations.

The Company's operations in connection with the Concession will be exempt from the Kingdom's Competition Law.

The Company will not pay or be responsible for any custom duties, custom returns, other direct or indirect import taxes or similar charges or any export duties on Hydrocarbons.

The Government will provide to the Company: (a) reasonable assistance with respect to the Company's performance of its operations; (b) reasonable assistance to acquire any rights upon the request of the Company and as permitted under applicable law and the Concession, including the right of the Government to expropriate property pursuant to the Kingdom's Law of Eminent Domain and Temporary Seizure of Real Estate; and (c) act in a timely manner when Government approvals are required pursuant to the Concession, giving due consideration, however, to the facts and circumstances and Government requirements at that time.

In the event of a national emergency resulting from war, threat of war, insurrection or critical shortage of Hydrocarbons, the Government has the right to seize Hydrocarbons from the Company, use the fields and facilities in the Concession Area during any such emergency and require the Company to increase production from its operations in case it is unable to meet the Government's needs from the Company's then-current production, provided that the Government compensates the Company at fair value for such Hydrocarbons and the use of such property.

#### 13.5.1.15 *Force Majeure*

If the Company's operations are delayed, curtailed or prevented by force majeure, then the time to carry out the obligations thereby affected and all other rights and obligations under the Concession (except for any obligations requiring payment of money due and payable) will be extended for a period equal to the period of the force majeure thus involved.

#### 13.5.1.16 *Termination*

Except as described in Section 13.5.1.15 (*Force Majeure*), the Company will be in default under the Concession if the Company persistently fails to perform its material obligations thereunder or fails to make any material, undisputed payment thereunder when due to the Government, and any such failure is continuing and has not been remedied (a) with respect to the Company's payment obligations to the Government, within 90 days after a written notice of default is given to the Company by the Government or (b) with respect to the Company's material non-payment obligations, within a reasonably practicable cure period in light of the nature of such default starting from the date the Company receives such written notice of default, provided that the foregoing will not be deemed a default while the Company continues to undertake corrective actions with respect to such default during such cure period.

The Government has the right to terminate the Concession by written notice from the Government to the Company to the extent a default has occurred and is continuing as set forth above. The Concession will also be terminated without notice or any other action on the date the Company is duly dissolved.

Upon termination or expiry of the Concession, all properties of the Company related to its upstream operations within the Kingdom and such plants, pipelines for the transfer of crude oil and gas and storage and export facilities directly related to such upstream operations, whether moveable or immovable, will become the property of the Government. The Company will continue to own all of its other assets and will maintain the absolute right to dispose of or operate such assets or to continue its operations pursuant to applicable law.

#### 13.5.1.17 *Governing Law and Disputes*

The Concession is governed by and construed in accordance with the applicable legislation in the Kingdom.

The Government and the Company will attempt to resolve, in good faith and in an amicable and equitable manner, any dispute in connection with the Concession through authorised representatives. If any such dispute is not so resolved between the parties within 90 days from the date on which either party receives written notification from the other party that such dispute exists, then either party will have the rights and remedies provided to such party under applicable law. In case of an on-going and continuous dispute relating to technical or operational matters, the parties may by mutual agreement appoint a qualified and independent Hydrocarbons industry expert who will be jointly selected by the parties to review such dispute using international commercial

and engineering standards, under the supervision of both the Government and the Company and in accordance with procedures to be timely agreed to by the parties.

#### 13.5.1.18 *Assignments*

The Company may not assign, transfer or pledge any part of its rights and obligations under the Concession to any third party without the prior written consent of the Government.

#### 13.5.1.19 *Reports*

As soon as practicable, the Company will provide the Government with certain technical reports and any other reports the Government requests in relation to the Company's operations. The Company will furnish the Government (a) within 45 days after the end of the first, second and third quarters of each financial year, quarterly financial statements certified by an authorised financial officer of the Company and, within 90 days after the end of each financial year, annual financial statements audited by an internationally recognised accounting firm acceptable to the Government, in each case, prepared in accordance with IFRS, (b) as soon as practically possible, the total sum of royalties, taxes and other amounts the Company paid to the Government during the preceding month and periodical reports prepared by the Company to set its sale prices for crude oil and (c) any other financial information the Government may request periodically or from time to time relating to the Company's operations and financial position.

#### 13.5.2 ***Purchase Agreement in Connection with the Proposed Acquisition of the PIF's 70% Equity Interest in SABIC***

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. The acquisition is currently expected to close in the first half of 2020G. For a summary of the purchase agreement to acquire the PIF's 70% equity interest in SABIC, see Section 4.2 (*Proposed Acquisitions*).

#### 13.5.3 ***Agreements with Key Customers***

Other than one customer in 2016G which accounted for approximately 6% of the Company's revenue and other income related to sales, there is no single customer that constituted 5% or more of the Company's revenue and other income related to sales in the years ended 31 December 2016G, 2017G or 2018G.

#### 13.5.4 ***Agreements with Key Suppliers***

The Company purchases materials and services from local and international suppliers. There is no single supplier that constituted 5% or more of the Company's total purchases in the years ended 31 December 2016G, 2017G or 2018G.

## 13.6 Financing Agreements and Guarantees

The following table sets out the material financing agreements and guarantees entered into by the Company for the purposes of its business.

**Table 90: Details of material financing agreements and guarantees**

Type of Financing	Termination Date	Key Legal Terms
<b>GMTN Programme:</b>		
\$1 billion senior unsecured notes	16 April 2022G	Customary covenants and events of default
\$2 billion senior unsecured notes	16 April 2024G	Customary covenants and events of default
\$3 billion senior unsecured notes	16 April 2029G	Customary covenants and events of default
\$3 billion senior unsecured notes	16 April 2039G	Customary covenants and events of default
\$3 billion senior unsecured notes	16 April 2049G	Customary covenants and events of default
<b>Sukuk Programme:</b>		
SAR 11.25 billion sukuk	10 April 2024G	Customary covenants and events of default
<b>Revolving credit facilities:</b>		
5-year U.S. Dollar conventional facility (for an amount of \$6 billion)	26 March 2022G	Customary covenants and events of default
5-year SAR murabaha facility (for an amount of SAR 7.5 billion (\$2 billion))	26 March 2022G	Customary covenants and events of default
364-day U.S. Dollar conventional facility (for an amount of \$1 billion)	26 March 2022G	Customary covenants and events of default
364-day SAR murabaha facility (for an amount of SAR 3.75 billion (\$1 billion))	26 March 2022G	Customary covenants and events of default
<b>Others:</b>		
Sadara completion guarantee	31 December 2020G	N/A
Petro Rabigh completion guarantee	1 July 2020G	N/A

Source: Company.

For more details on these material financing agreements and guarantees, see Section 7.7 (*Borrowings*).

### 13.6.1 Financing Agreements and Guarantees of the Company

#### 13.6.1.1 Senior Unsecured Notes Issued Under the GMTN Programme

On 1 April 2019G, Saudi Aramco established the GMTN Programme, pursuant to which it may from time to time issue notes. On 16 April 2019G, Saudi Aramco issued \$12 billion in aggregate principal amount of senior unsecured notes under the GMTN Programme comprising five tranches, all of which are payable semi-annually in arrear: \$1 billion 2.750% senior notes due 2022; \$2 billion 2.875% senior notes due 2024; \$3 billion 3.500% senior notes due 2029; \$3 billion 4.250% senior notes due 2039 and \$3 billion 4.375% senior notes due 2049. The Senior Unsecured Notes are constituted by a trust deed dated 1 April 2019G between Saudi Aramco and Citibank N.A., London Branch, as trustee. Interest is payable semi-annually on 16 April and 16 October. The Company recorded an amount of \$11.8 billion upon receiving the proceeds of the issuance, and deducting its costs. The Senior Unsecured Notes are not guaranteed by pledge or personal guarantee.

#### 13.6.1.2 Revolving Credit Facilities

The Company entered into a common terms agreement in relation to \$10 billion revolving credit facilities on 26 March 2015G with HSBC Saudi Arabia Limited, J.P. Morgan Limited and Riyadh Bank as global coordinators, The Bank of Tokyo-Mitsubishi UFJ, Ltd. as conventional facility agent, Riyadh Bank as global facility agent and murabaha facility agent and a club of 28 regional and international banks.

The Revolving Credit Facilities Common Terms Agreement provides the framework and common lending terms for a U.S. Dollar facility and a SAR murabaha facility. The U.S. Dollar facility is made up of a five-year \$6 billion facility (with two one-year extension options) and an annually renewable 364-day \$1 billion facility. These facilities are priced at 12 and 10 basis points for the five-year and 364-day facilities respectively over LIBOR.



The SAR murabaha facility is made up of a five-year SAR 7.5 billion (\$2 billion) facility (with two one-year extension options) and an annually renewable 364-day SAR 3.75 billion (\$1 billion) facility. These facilities are priced at 11 and 9 basis points for the five-year and 364-day facilities respectively over SAIBOR.

The facilities under the Revolving Credit Facilities Common Terms Agreement are unsecured and not guaranteed by pledge or personal guarantee.

#### 13.6.1.3 *Sukuk*

Saudi Aramco Sukuk Company, an indirect subsidiary of Saudi Aramco, established a Sukuk Programme on 21 March 2017G pursuant to which it may issue, from time to time, up to SAR 37.5 billion in aggregate nominal amount of sukuk.

Saudi Aramco Sukuk Company issued SAR 11.25 billion in aggregate nominal amount of sukuk on 10 April 2017G with a tenor of seven years. The sukuk provide a return based on SAIBOR plus a pre-determined margin payable semi-annually. The aggregate nominal amount of the sukuk is payable on a bullet basis upon final redemption.

Saudi Aramco Sukuk Company issued SAR 2,344 million in aggregate nominal amount of the sukuk on 9 October 2011G with semi-annual payments from 20 December 2014G to 20 December 2025G that provide a rate of return above SAIBOR.

The sukuk are issued by Saudi Aramco Sukuk Company and are unsecured and not guaranteed.

#### 13.6.1.4 *Saudi Aramco Completion Guarantee to Sadara's Credit Providers*

On 31 March 2013G, the Company entered into a guarantee of 65% (the Company's ownership interest percentage in Sadara) of the senior debt amounts owed by Sadara to its credit providers (the "**Sadara Completion Guarantee**"). The Sadara Completion Guarantee will terminate at the earliest to occur of: (i) the project completion date, which is expected to occur by the end of the first half of 2020G; (ii) payment in full by Sadara of its senior debt amounts; (iii) the payment in full by the Company of its aggregate maximum liability (65% of the senior debt amounts); or (iv) the written release (from the security agent appointed by the credit providers) of the Company from its obligations thereunder. As at 31 December 2018G, out of a total guaranteed amount of SAR 30.9 billion (\$8.3 billion), the outstanding amount guaranteed by the Company was SAR 28.8 billion (\$7.7 billion).

#### 13.6.1.5 *Saudi Aramco Completion Guarantee to Petro Rabigh's Credit Providers*

In March 2019G, the Company entered into a guarantee of 50% of the payment obligations to the credit providers of Petro Rabigh under its SAR 19.4 billion financing arrangements related to the Rabigh II Project (the "**Petro Rabigh Completion Guarantee**"). The Petro Rabigh Completion Guarantee will be terminated upon the project completion date, which is expected to occur by 1 July 2020G. As at 31 December 2018G, the full amount of financing was drawn.

### 13.7 **Insurance Policies**

The Company maintains insurance policies covering different types of risks to which it may be exposed. These insurance policies have been issued primarily by the Company's wholly owned captive insurance company, Stellar, formed and licensed under the laws of Bermuda. All of the Company's insurance providers hold a rating of at least A- from AM Best or equivalent rating agencies.

The Company believes that it maintains insurance coverage consistent with industry practice and subject to customary deductibles, caps, exclusions and limitations. The following table sets out the key particulars of the material insurance policies issued by Stellar and held by the Company.

**Table 91: Details of material insurance policies**

Types of Coverage	Maximum Insurance Coverage
Aviation Liability Insurance and Refuellers Liability	Coverage A (Aircraft Liability): \$1 billion each occurrence (sublimits apply) Coverage B (Medical Expenses): \$25,000 any one person (sublimits apply) Coverage C (Part 1 Airport Liability; Part 2 Premises Liability; Part 3 Products and Completed Operations Liability): \$1 billion each occurrence (sublimits apply) Coverage D (Excess Non-Aviation Liability): \$25 million each occurrence and in the annual aggregate (sublimits apply)
Aviation Refuelling Liability	\$1 billion each occurrence
Aviation Hull and Spares Insurance	Aircraft Hull: As scheduled per aircraft; Spares: \$50 million any each occurrence / any one sending
Energy – Onshore Property	\$1.5 billion any one occurrence (sublimits apply)
Energy – Offshore Property	\$900 million any one occurrence (increasing to \$1 billion in respect of Marjan gas oil separation plant 2; sublimits apply)
Energy – Corporate Liabilities	Onshore: \$550 million any one claim; Offshore: \$550 million any one claim
Marine – Crude Cargo & Other:	
Section 1: A: Crude Oil and products stored or carried on board vessels owned or chartered by the insured; B: All other good and/or merchandise and/or property of every description	\$250 million by any one means of conveyance or in any one place at any one time
Section 2: Petroleum products stored or carried on board vessels owned or chartered by ATC	\$200 million any one vessel and/or conveyance
Section 3: Chemical products stored or carried on board vessels owned or chartered by ATC	\$100 million any one vessel and/or conveyance and/or location

Source: Company.

For further information on the insurance risks of the Company, see Section 2.1.7 (*Risks related to insufficient insurance*).

## 13.8 Real Estate

### 13.8.1 Title Deeds

The Company owns various real estate properties inside and outside the Kingdom that are used for various purposes in the context of the business of the Company. The Directors declare that none of these properties are individually material in the context of the Company's business.

### 13.8.2 Lease Agreements

The Company has entered into various lease agreements for purposes of its business. The Directors declare that none of these lease agreements are individually material in the context of the Company's business.

### 13.8.3 Land Reservations

As at the date of this Prospectus, the Company has been granted various land reservations by the Government within the Kingdom, including land reservations in connection with the Concession which grant the Company the exclusive right to explore, drill, prospect, appraise, develop, extract, recover and produce Hydrocarbons in certain areas within the Kingdom. The key particulars of certain of the Company's land reservations are set out in the following table.

**Table 92: Key particulars of certain of the Company’s land reservations**

Property	Province of the Kingdom	Aggregate Size of Land (square metres)	Purpose
<b>Upstream:</b>			
Ghawar .....	Eastern Province	8,684,468,468	Reservation for oil and gas field
Shaybah .....	Eastern Province	6,324,927,271	Reservation for oil and gas field
Safaniyah .....	Eastern Province	3,912,169,156	Reservation for oil and gas field
Zuluf .....	Eastern Province	4,040,903,493	Reservation for oil and gas field
Khurais .....	Eastern Province	2,959,064,819	Reservation for oil and gas field
<b>Downstream:</b>			
East-West Pipeline System .....	N/A	310,867,453	Pipeline
Ras Tanura Refinery .....	Eastern Province	5,169,371	Refining
Juaymah Terminal .....	Eastern Province	1,847,069	Loading facilities
Juaymah Natural Gas Fractionation Plant .....	Eastern Province	4,696,737	Natural gas processing
SATORP Refining Facility .....	Eastern Province	4,833,100	Refining
<b>Corporate:</b>			
Dhahran Community .....	Eastern Province	32,402,257	Corporate headquarters

Source: Company.

### 13.9 Related Party Contracts and Transactions

The Company has entered into various Related Party contracts and transactions. The Directors declare that all such contracts and transactions have been entered into on an arm’s length basis. For more information regarding the waiver from the definition of “related parties” in the OSCO Rules, see Section 17 (*Waivers*).

#### 13.9.1 Concession

For a summary of the Concession, see Section 13.5.1 (*The Concession*).

#### 13.9.2 The Ministry of Energy Framework Agreement

On 5 September 2019G, the Company and the Ministry of Energy entered into an agreement to establish a framework for the Company to provide certain services and studies as requested by the Ministry of Energy (the “**Framework Agreement**”). The Framework Agreement is effective as at 25/4/1440H (corresponding to 1 January 2019G) and provides that the scope of services and studies furnished by the Company to the Ministry of Energy will be agreed on a case-by-case basis prior to undertaking such performance. If the service or study is requested by the Ministry of Energy and in the interest of the Company, is connected to the Company’s operations and serves the Company’s objectives, then the Company will be solely responsible for the costs of such service or study. The Company will apply the necessary accounting procedure for any services or studies required based upon High Orders and treat them as instructions from the Government. The Company will be reimbursed for any other services required by the Ministry of Energy and any services or studies or other work requiring expenditures requested by the Government. The amount of any such reimbursements will be agreed by the parties on a case by case basis to cover the costs for such services or studies or the lowest profit margin offered in return for similar services by the Company or any other entity. The Framework Agreement provides that the maximum aggregate costs of services and studies that the Company shall perform under the agreement shall not exceed \$100 million per year.

#### 13.9.3 Commercial Transactions

The Company sells crude oil, gas and refined products and provides services to certain Government entities, including branches of the Government, and commercial entities in which the Government has share ownership or control. The most significant commercial transactions have been with SABIC and Saudi Electricity Company.

From the 1980Gs to 2016G, the Government periodically negotiated with the Company to transfer to the Government receivables that were owed by some of these entities. In some cases, these receivables were transferred to the Government for no consideration and, in other cases were transferred in exchange for a tax

offset. Most recently, in 2016G, the Company transferred receivables in the amount of SAR 52.4 billion (\$14.0 billion) to the Ministry of Finance in exchange for no consideration and with no impact on the Company's balance sheet. Effective 1 January 2017G, the Government has guaranteed amounts due to the Company from certain of these entities, subject to a limit on the amount of the guarantee for each entity. The aggregate amount guaranteed in 2017G, 2018G and 2019G was SAR 22.4 billion, SAR 32.7 billion and SAR 26.7 billion, respectively. See Section 5.4.4 (*Government Guarantee*).

The sales price of crude oil and certain refined products sold to third parties in the Kingdom is at regulated prices, which are typically lower than prices the Company could obtain if it exported those products. See Section 5.4 (*Regulated Domestic Pricing of Certain Hydrocarbons*). Effective 1 January 2017G, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly forgoes as a result of the Company's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020G, the Government will expand the equalisation mechanism to include LPGs and certain other products. See Section 7.3.6 (*Fiscal Regime Changes*). For these products, the Company is entitled to compensation from the Government in an amount equal to the cost of revenues directly forgone as a result of compliance with the Kingdom's current pricing mandates. For financial reporting purposes, the Company records the equalisation amount as other income related to sales on its consolidated statement of income and is subject to income tax on that amount. For the years ended 31 December 2017G and 2018G, the Company's other income related to sales was SAR 150.2 billion and SAR 152.6 billion (\$40.7 billion). The Company did not record any other income related to sales for the year ended 31 December 2016G as the price equalisation mechanism introduced by the Government was effective from 1 January 2017G.

Effective 27 March 2018G, the Government implemented a price system for Regulated Gas Products to provide licencees making gas investments an opportunity to realise a commercial rate of return suitable for the development and exploitation of the gas resources of the Kingdom. Pursuant to the regulations, the Domestic Price may not be lower than the Blended Price determined to provide a licencee with reasonable post-tax internal rates of return on existing non-associated gas projects on incremental future projects. However, if the Domestic Price is greater than the Blended Price, any licencee must pay the Government monthly an amount equal to such positive excess. See Section 5.4.3 (*Gas Pricing*).

On 17 September 2019G, the Council of Ministers Resolution No. 55, dated 18/1/1441H (corresponding to 17 September 2019G), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/423/1441, dated 18/1/1441H (corresponding to 17 September 2019G), were passed with immediate effect. Under the updated regulations, when licencees sell any Regulated Gas Product at a Domestic Price below the corresponding Blended Price, licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues they directly forgo as a result of licencees' compliance with the Kingdom's current pricing mandates. In the event that the Blended Price is less than the Domestic Price, the difference would be due from licencees to the Government. The compensation due to the Company from the Government is accounted for on a monthly basis and is calculated as the positive difference between the Blended Prices and the Domestic Prices (minus any Government fees and taxes). The Company must provide the Ministry of Energy with a statement detailing the total amount due to the Company in a monthly period no later than 30 days after the relevant monthly period end. The Company may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by the Company to the Government, such as royalties. See Section 5.4.3 (*Gas Pricing*).

#### 13.9.3.1 *Proposed Acquisition of Equity Interest in SABIC*

On 27 March 2019G, the Company entered into a purchase agreement with the PIF to acquire the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. For a summary of the purchase agreement to acquire the PIF's 70% equity interest in SABIC, see Section 4.2 (*Proposed Acquisitions*).

#### 13.9.3.2 *Sales to Government-Owned or Controlled Entities*

##### Sales to SABIC

The Company has entered into numerous agreements with certain of SABIC's wholly owned subsidiaries and affiliates pursuant to which the Company supplies hydrocarbon products to SABIC's operations in the Kingdom. Prices for such supplies are based on arm's-length pricing available to third parties purchasing from the Company. SABIC manufactures chemicals, commodities and high performance plastics and steel and operates in over 50 countries. It is listed on Tadawul with approximately 70% of its outstanding common stock owned by the PIF as at 31 December 2018G.

The agreements provide that the Company supply a maximum amount of certain of its products, including crude oil and gas, subject to the availability of such resources and any limitations on such products by the Government, including price regulations and production and refining requirements. The Company generally receives the Government regulated domestic price for the respective products on arm's length terms, except in the case of supply agreements for propane and butane where such prices are calculated based on a formula provided in the relevant agreement. The agreements generally have a term between 20 and 30 years with no option for renewal. The Company recorded revenue of SAR 19,039 million, SAR 24,293 million and SAR 32,254 million (\$8,601 million) and SAR 13,346 million (\$3,591 million) under these agreements in 2016G, 2017G and 2018G and the six months ended 30 June 2019G, respectively.

#### Sales to Saudi Electricity Company

The Company has entered into several oil and gas supply agreements with Saudi Electricity Company pursuant to which the Company supplies crude oil, gas and other products, including condensate, fuel oil and diesel, to certain of Saudi Electricity Company's power plants. Saudi Electricity Company is the Kingdom's national electricity utility company and is listed on Tadawul. As at 31 December 2018G, the Company owned 6.9% of its outstanding common stock and the PIF owned 74.3%.

The agreements generally have a term between six months and five years and are automatically renewed unless terminated by one of the parties. Most of the agreements limit the amount of oil or gas that can be supplied per day or, in a few agreements, for the term of the agreement. The agreements provide for the Company to receive the prevailing domestic price or the Government regulated domestic price for the respective products. The Company provided to Saudi Electricity Company products with a value of SAR 11,959 million in 2016G, for which it received no consideration, and recognised revenue of SAR 12,405 million, SAR 7,268 million (\$1,938 million) and SAR 3,574 million (\$953 million) under these agreements in 2017G, 2018G and the six months ended 30 June 2019G, respectively. As part of the fiscal regime changes, the Company expects that the future provision or products to Saudi Electricity Company for which the Company does not receive payment will be settled pursuant to the Government guarantee. See Section 7.3.6 (*Fiscal Regime Changes*).

In addition, for the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G, the Company provided to Saudi Electricity Company excess electricity generated by the Company's facilities with a value of SAR 202.5 million, SAR 480.0 million, SAR 408.8 million (\$109 million) and SAR 165 million (\$44 million), respectively.

#### 13.9.3.3 *Sales to Government Branches and Other Related Parties*

For the years ended 31 December 2016G, 2017G and 2018G, the Company provided crude oil, gas and refined products and certain services to Saline Water Conversion Corporation, Saudi Arabian Airlines, various branches of the Government and other entities owned or controlled by the Government. The Company provided crude oil, gas and refined products and certain services, valued at SAR 6,229 million for which it did not receive consideration. For the years ended December 2017G and 2018G and the six months ended 30 June 2019G, the Company provided crude oil, gas and refined products and certain services with a value of SAR 9,168 million, SAR 10,913 million (\$2,910 million) and SAR 6,563 million (\$1,750 million), respectively, for which it received compensation. See Section 7.3.6 (*Fiscal Regime Changes*).

#### 13.9.3.4 *Purchases from Government-Owned or Controlled Commercial Entities*

The Company purchases chemical products from SABIC in connection with its downstream operations. Prices for such purchases are based on arm's-length pricing available to third parties purchasing from SABIC. Such purchases totalled SAR 2,764 million, SAR 2,959 million and SAR 3,098 million (\$826 million) for the years ended 31 December 2016G, 2017G and 2018G, respectively, and SAR 1,343 million (\$358 million) for the six months ended 30 June 2019G.

The Company purchases electricity from the Saudi Electricity Company. Prices for such purchases are based on arm's-length pricing available to third parties purchasing from the Saudi Electricity Company. Such purchases totalled SAR 694 million, SAR 308 million and SAR 296 million (\$79 million) for the years ended 31 December 2016G, 2017G and 2018G, respectively, and SAR 176 million (\$47 million) for the six months ended 30 June 2019G.

### 13.9.3.5 *Transactions with Directors and Senior Executives*

Other than with respect to compensation arrangements, as at the date of this Prospectus there are no transactions in which any of the Company's Directors or Senior Executives or an immediate family member thereof had or will have a direct or indirect personal interest or were not entered into on an arm's length basis.

### 13.9.3.6 *Approval of Related Party Transactions*

The Company has adopted a policy for related party transactions, which establishes general guidelines for its engagement in transactions with related parties and provides that such transactions with related parties be reviewed by the Audit Committee of the Company's Board. With respect to related party transactions with the Government, under the terms of the Concession, all contracts among the Company and any Government agency are required to be on a commercial basis, regardless of whether the transaction is for the supply of hydrocarbons products, services or otherwise. Pursuant to Company policy, the Company is required to negotiate related party transactions on an arm's length basis and such transactions are subject to review by the Audit Committee. The Company's Bylaws require that no member of the Board nor any officer of the Company may have a personal interest, as determined by the Board, in any transaction made on behalf of the Company, unless prior authorisation is received from the Board.

### 13.9.3.7 *Corporate Citizenship*

The Company engages in a range of corporate social responsibility projects to support the communities and the environment in which it operates and leverages its know-how and operational capabilities in furtherance of these projects. The Company considers these activities to be "corporate citizenship" projects and initiatives.

In addition to projects undertaken on its own initiative, the Government has directed, and may in the future direct, the Company to undertake projects or provide technical assistance for initiatives outside the Company's core businesses in furtherance of the Government's objectives. Beginning on 24 December 2017G, the Concession requires that all Company contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise shall be on a commercial basis. For additional information about the Company's corporate citizenship activities, see Sections 7.5.2.4 (*Selling, Administrative and General*) and 4.15 (*Corporate Citizenship*).

### 13.9.3.8 *Other Transactions*

The Company has an ongoing relationship with the Government through other transactional arrangements, for which the Company is reimbursed in several different manners. For projects on which the Company provides financing and arranges for completion of the project, it receives a reimbursement of its expenses through a reduction in taxes payable. The reduction in taxes payable is considered payment of income tax obligations in the Financial Statements. Projects for which the Company has received reimbursement include, among others, King Salman Energy Park ("**SPARK**"), the Jazan Complex Terminal and the National Guard Compound at Thuwal. For the years ended 31 December 2016G, 2017G and 2018G and the six months ended 30 June 2019G, the Company has been reimbursed approximately SAR 12,720 million, SAR 4,208 million, SAR 5,648 million (\$1,506 million) and SAR 1,792.5 million (\$478 million) in connection with such projects.

SADCO, a wholly owned subsidiary of the Company, has formed the Jasara Program Management Company, a joint venture with Jacobs Engineering Inc. and the PIF, to provide professional programme and construction management services for infrastructure projects undertaken by the Company, the Government and commercial entities in which the Government has shared ownership or control in the Kingdom. These services are provided on an arm's length basis and the joint venture undertakes the management and development of these types of projects.

At the direction of the Government and consistent with the Company's long-term commercial interests, in the fourth quarter of 2018G the Company began constructing the infrastructure for SPARK, an industrial park aimed to attract international third party manufacturers and suppliers of goods to the energy sector to locate facilities in the Kingdom. The Company believes that SPARK will shorten the supply chain for the Company and other companies in the Kingdom's energy sector, as well as result in more competitive pricing offered by suppliers of goods to energy sector companies in the Kingdom. Once operational, SPARK is expected to be managed by the Company. The Company receives a reimbursement of its expenses related to SPARK through a reduction in taxes payable.

The Company owns a 50% interest in International Maritime Industries, a joint venture with Saudi National Shipping Company-Bahri, Lamprell Energy Limited and Hyundai Heavy Industries, which will develop and operate the King Salman International Complex for Maritime Industries & Services. The complex will also include a joint venture between the Company, Hyundai Heavy Industries and Dussur to manufacture maritime equipment. The Government has granted the complex a grant of \$3,800 million to fund construction of the complex, which is expected to be completed in 2022G.

The Company currently provides a variety of services to the Government for which it has not received compensation. The Company believes that the amounts expended for, and employee time dedicated to, such services is not material. These transactions have traditionally included services related to data analyses, consultations, construction, engineering and design services, among others, as well as secondment of personnel.

### 13.10 Conflicts of Interests

As at the date of this Prospectus, the Directors have declared that they do not have a conflict of interest in relation to contracts or transactions of the Company, and none of them is engaged in any activities similar to, or competing with, the Company's activities.

### 13.11 Intellectual Property

The Company assesses, develops and incorporates new technology in a manner tailored to the Company's operations to ensure the long-term sustainability of its business, enhance its operational efficiency, increase profitability and reduce the environmental impact of its operations. The scale of the Company's hydrocarbon reserves and operational capabilities enable it to realise significant benefits and value from otherwise marginal technological benefits.

The Company focusses its technology initiatives in three areas: upstream, downstream and sustainability. Upstream technology development is directed primarily to improving methods for discovering new hydrocarbon reserves, improving oil recoveries, increasing productivity, discovering novel catalysts and reducing lifting costs. Downstream technology development is dedicated primarily to maximising value across the hydrocarbon chain and finding new and improved methods of producing products. Sustainability technology development is aimed at growing non-fuel applications for crude oil, sustaining low carbon intensity crude oil, advancing sustainable transport and driving high-impact low carbon intensity solutions.

The Company's intellectual property ("IP") portfolio includes patents, trademarks and copyrights, of which no individual IP asset is considered material to the Company, nor does the business of the Company depend on any such IP asset.

### 13.12 Litigation

From time to time, the Company is subject to various claims, lawsuits, regulatory investigations and other legal matters arising in the ordinary course of business, including contractual claims relating to construction projects and agreements to render services undertaken by the Company, claims for title to land and environmental claims. Additionally, the Company in the past has been subject to antitrust claims in the United States.

Furthermore, exports of crude oil, refined products and petrochemicals by the Company or its affiliates to foreign countries may be affected by litigation, disputes or agreements that lead to the imposition of import trade measures, including anti-dumping and countervailing duties, safeguard measures, import licensing and customs requirements. The possibility and effect of any such measures will depend on the domestic laws in the relevant country to which the applicable products are being exported and applicable international trade agreements.

The outcome of litigation and other legal matters is inherently uncertain. The Company believes it has valid defences to the legal matters currently pending against it. Actual outcomes of these legal and regulatory proceedings may materially differ from current estimates. To date, none of these types of litigation matters has had a material impact on the Company's operations or financial position. As at the date of this Prospectus, there is no litigation or claim (including any pending or threatened litigation) or any ongoing investigations which may have a material effect on the Company's or any of its subsidiaries business or financial position.

#### 13.12.1 Contract Claims

From time to time, the Company has been subject to litigation within the Kingdom as a result of contract disputes with third parties. These contract claims, which primarily involve construction and agreements to render services, generally include allegations relating to non-payment, scope of work changes, and increased costs due to project

delays. A number of these claims are currently pending in litigation and arbitration proceedings in the Kingdom. Although the value of these individual contract claims is not material, the aggregate value of such claims may reach or exceed \$1 billion in potential exposure.

#### 13.12.2 *Land Claims*

From time to time, the Company has been subject to, and remains subject to, claims for title to land within the Kingdom, including claims for compensation in connection with the Company's use of the relevant land at issue. Not all these land claims have been individually valued. Although the total value of these land claims is unknown, the aggregate value of such claims may reach or exceed \$1 billion in potential exposure.

#### 13.12.3 *U.S. Antitrust Claims*

The Company has previously been subject to litigation in the United States involving claims of antitrust violations in connection with the Kingdom's membership in OPEC and collective activity with respect to hydrocarbon production. These antitrust actions have sought extensive relief, including treble damages, divestiture of assets in the United States and disgorgement of profits. If granted, such relief could have an adverse material effect on the Company. To date, the OPEC-related antitrust lawsuits have been dismissed on the basis of various sovereign defences under U.S. law, including the political question and the act of state doctrines, sovereign immunity under the FSIA and other legal defences. However, there can be no assurance that the Company will prevail in its assertion of these defences in the future and any adverse judgment or settlement of litigation could have an adverse effect on the Company's business, financial position and results of operations.

#### 13.12.4 *U.S. Justice Against Sponsors of Terrorism Act*

The Justice Against Sponsors of Terrorism Act ("JASTA") became U.S. law in September 2016G and creates a new basis for U.S. nationals to sue foreign sovereigns and their agencies and instrumentalities in U.S. courts for terrorism related claims arising from U.S. based attacks, including the terrorist attacks on 11 September 2001G. To date, there have been a number of JASTA related claims against the Kingdom and other defendants, and one recently filed against Motiva. Any claims against the Company related to JASTA, even if without merit, could adversely impact investor perceptions of the Company.

#### 13.12.5 *MTBE Environmental Claims*

In the United States, Motiva and other companies in the petroleum refining and marketing industry historically used MTBE as a gasoline additive. Motiva is a party to pending lawsuits concerning alleged environmental impacts associated with historic releases of MTBE in the United States. Many of these lawsuits involve other oil and gas companies as defendants. Plaintiffs in these MTBE lawsuits generally seek to spread liability among large groups of oil and gas companies and often seek substantial damages. Additional lawsuits and claims related to the use of MTBE, including personal-injury claims, may be filed in the future. Motiva could be subject to material liabilities relating to MTBE claims. If Motiva or the Company were to be subject to such liabilities, this could have a material adverse effect on the Company's business, financial position and results of operations.

### 13.13 **Summary of Bylaws**

The following is a summary of the Bylaws, which came into effect on 1 January 2018G. References to the "State" in this Section 13.13 (*Summary of Bylaws*) are references to the Government as shareholder of the Company.

#### 13.13.1 *Name of the Company*

The name of the Company is Saudi Arabian Oil Company (Saudi Aramco), a joint stock company pursuant to Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G), established by Royal Decree No. M/8 dated 4/4/1409H (corresponding to 13 November 1988G).

#### 13.13.2 *Headquarters of the Company*

The Company's headquarters are in the city of Dhahran in the Kingdom. The Company may establish branches, offices or agencies inside or outside the Kingdom.



### 13.13.3 *Objectives of the Company*

The main objectives of the Company are engaging in any activities relating to the energy industry, including hydrocarbons, chemicals, and other associated and complementary industries, or any other activity, in or outside the Kingdom. The Company may also undertake, without limitation, the following:

- (a) trading in, and marketing of, all energy, hydrocarbons, chemicals and other similar products, whether produced by the Company or by others;
- (b) manufacturing and preparing any products, machinery, vessels and tools related to the energy sector, including hydrocarbons, chemicals and other related and complementary industries;
- (c) transporting and distributing energy, hydrocarbons, chemicals and other similar products, whether produced by the Company or by others;
- (d) generating and storing energy and electricity from different sources, and transmitting and distributing the same;
- (e) importing and exporting all energy, hydrocarbons, chemicals and other similar products, whether produced by the Company or by others;
- (f) contracting, construction, operation, maintenance and management services related to all energy, hydrocarbons, chemicals and other similar facilities;
- (g) engineering, design and consulting services related to all energy, hydrocarbons, chemicals and other similar facilities;
- (h) financial, securities, investment funds, savings funds, securities services, assurances insurance and management services;
- (i) aviation and freight services;
- (j) medical and health care-related services;
- (k) owning real estate and performing all kinds of dispositions thereof;
- (l) establishing research facilities and participating in and pursuing research;
- (m) establishing educational facilities and programmes and other related activities in furtherance of the Company's interests; and
- (n) such other objects or activities as may be related to the objects stated above.

### 13.13.4 *Participation*

The Company, notwithstanding any otherwise applicable capital requirement, may form and own companies, solely or jointly with others, and the Company may also have interest or participate in any way with national and foreign companies and entities both inside and outside the Kingdom. The Company may also fund, contract and own securities or shares in other existing companies or any other type of entity.

The Company may require its direct and indirect subsidiaries whether wholly or partially owned, to enter into arrangements that would permit such subsidiaries to provide the Company with confidential information from such companies and to allow the disclosure of such information in the Company's financial statements and other disclosures; *provided* that the Company does not trade (or permit others to trade) securities in such companies based on such information provided by such subsidiaries.

### 13.13.5 *Duration of the Company*

The term of the Company shall be indefinite. The Company may only be dissolved, expired or liquidated by a resolution of the Council of Ministers.

### 13.13.6 *Company's Share Capital*

The Company's capital has been set at sixty billion Saudi Riyals (SAR 60,000,000,000), is fully paid, and is divided into two hundred billion (200,000,000,000) ordinary shares with no par value.

#### 13.13.7 *Government's Option to Acquire Shares*

The State may, at any time following the completion of the Offering, offer to purchase Shares from other shareholders. Upon the receipt of such offer, the Board of Directors shall call for an Extraordinary General Assembly in order to allow the other shareholders to decide on the sale of Shares. All holders of such Shares will be obligated to sell their Shares to the State at the offering price made by the State if 75% of the Shares not held by the State (and any shareholder acting in concert with the State) consent to such sale in a duly held Extraordinary General Assembly. A minority shareholder who is not present at such Extraordinary General Assembly, or votes against the resolution approving the sale of Shares to the Government, will still be bound by the Extraordinary General Assembly's resolution and will be compelled to sell its Shares to the Government.

#### 13.13.8 *Preferred Shares*

The Extraordinary General Assembly may issue or purchase preferred shares, convert ordinary shares to preferred shares or convert preferred shares to ordinary shares. Such preferred shares do not grant the right to vote in the General Assemblies of shareholders but rather grant their holders the right to obtain a larger proportion of the Company's distributable profits vis-à-vis the proportion of the Company's distributable profits attributable to the ordinary shares after appropriation by the Board of Directors of any reserves in accordance with the relevant article of the Bylaws.

#### 13.13.9 *Transferability of the Shares*

Without prejudice to the relevant article of the Bylaws, the shareholders, including the State, may, at any time, sell, transfer or pledge all or part of their shares to other shareholders or third parties, with no application of the lock-up period otherwise legally required relating to publication of financial statements.

#### 13.13.10 *Shareholders' Register*

Following the initial public offering of Company shares, such shares shall be negotiable in accordance with the provisions of the Bylaws, the Companies Law, Capital Market Law and their regulations and applicable laws and regulations in force in the Kingdom, and the rules of the exchange(s) on which the Company shares are listed.

#### 13.13.11 *Increase of Share Capital*

The Extraordinary General Assembly may authorise an increase in the number of Company shares, including increasing through a rights issuance, *provided* that the then-current capital of the Company has been paid in full, except in circumstances where the unpaid portion of the capital relates to shares held by the Company resulting from a buy-back or debt or financial bonds or other financial instruments convertible into shares and the period specified for their conversion has not yet expired.

The Extraordinary General Assembly shall have the right to issue an annual approval for the Board of Directors to authorise increases in the number of Company shares of no greater than one percent in the aggregate. The Board of Directors may issue the shares at its discretion within a year of the approval of the Extraordinary General Assembly.

The Extraordinary General Assembly may allocate issued shares or any part thereof, in accordance with the above, to the Company's employees or employees of any of the Company's direct or indirect subsidiaries (whether wholly or partially owned). Shareholders shall have no pre-emptive right to subscribe for such new authorised shares allocated to such employees or employees of such subsidiaries.

The Extraordinary General Assembly may suspend the shareholders' pre-emptive right to subscribe for an increase in the number of shares of the Company against contributions in cash or may give priority to non-shareholders in such cases as it deems appropriate for the Company.

When authorising new Company shares, the Extraordinary General Assembly or Board of Directors, as applicable, may approve the issuance of debt instruments or financial bonds or any other financial instruments convertible into shares and specify the maximum number of Company shares that may be issued through such instruments.

#### 13.13.12 *Decrease of Share Capital*

The Board of Directors may reduce the capital of the Company if it exceeds the needs of the Company or if the Company incurs losses, and in the latter case only, the capital of the Company may be reduced to below the limit

set in Article 54 of the Companies Law. Such resolution shall not be issued prior to the disclosure to the Extraordinary General Assembly of the Company's obligations and the effect of such reduction on such obligations. Creditors may review such disclosure, but their consent shall not be required. The publication of debts shall not be required by the Company.

If the Company incurs losses reaching half of the paid up capital, the Board of Directors shall invite the Extraordinary General Assembly to take the actions it deems appropriate, including whether any shareholder resolutions should be announced publicly, and whether the shareholders of the Company must provide financial support for the continuation of the Company. Under no circumstance shall the Company be deemed dissolved, nor shall it undergo automatic dissolution by force of law due to the losses of the Company being equal to or greater than half the paid-up capital of the Company, unless such dissolution is pursuant to a resolution of the Council of Ministers.

The Board of Directors may by resolution approve the repurchase of shares by the Company, whether or not in conjunction with a reduction in the capital of the Company and whether or not for the purpose of allocating such shares to its employees within an employee shares plan, or for such other purpose as the Board of Directors may determine is in the best interest of the Company.

#### **13.13.13 Issuing Sukuk and Bonds**

The Company may issue and offer sukuk, bonds and other debt instruments of any form and nature, whether or not the same are offered for private or public subscription. Any meeting for such sukuk, bond or other debt instrument holders shall be convened in accordance with the terms and conditions of such sukuk, bonds and other debt securities' offering documents.

#### **13.13.14 Board of Directors**

The Company shall be managed under the direction of a Board of Directors composed of 11 members, each of whom shall serve for a term not exceeding three years. The number of independent directors on the Board of Directors shall be in compliance with the minimum number of independent directors required by applicable Saudi Arabian laws and regulations.

The State shall directly nominate six candidates for election to the membership of the Board of Directors. Any shareholder other than the State (or a group of shareholders) holding more than one-tenth of 1% of the ordinary shares can propose a candidate for membership on the Board of Directors to the nomination committee. All other nomination for membership on the Board of Directors shall be made by the nominations committee of the Board of Directors. All holders of ordinary shares, including the State, shall have the right to vote at the Ordinary General Assembly for the election of all members of the Board of Directors, other than the president and chief executive officer of the Company.

The chief executive officer of the Company shall be a member at the Board of Directors, provided that he shall not be the Chairman of the Board of Directors. The chief executive officer's membership shall not require any further procedures by General Assemblies.

#### **13.13.15 Membership Termination**

Members of the Board of Directors shall continue to hold office until their successors are duly elected in accordance with applicable laws and regulations in force in the Kingdom. The Ordinary General Assembly may, at any time, dismiss all or some of the members of the Board of Directors, without prejudice to the right of the dismissed member to hold the Company liable for accrued and unpaid compensation if the dismissal has taken place without acceptable justification. A Board member may resign from office at any time and for any reason without liability arising from the act of resignation.

The State's voting right at the Ordinary General Assembly on the dismissal of the members of the Board of Directors, shall include voting on independent directors and members who have not been nominated by it.

#### **13.13.16 Board Vacancy**

If the position of a member of the Board of Directors becomes vacant, the Board of Directors may elect a temporary member to fill the vacancy by the affirmative vote of a majority of the remaining members of the Board of Directors, *provided that* (i) if the vacant position was previously held by a member nominated by the State, such replacement member shall be nominated by the State; and (ii) such replacement member shall have the appropriate experience to achieve the Company's objectives. In any event, the Ministry of Commerce and

Investment, the Ministry of Energy, and, if the Company is listed, the Capital Market Authority, shall be notified within five business days from the date of the appointment, and such appointment shall be submitted to the following meeting of the Ordinary General Assembly for approval. The new member shall complete the unexpired term of such member's predecessor. Should the number of members of the Board of Directors be below the minimum legally required number, the current members of the Board of Directors shall invite the Ordinary General Assembly to convene within 60 days to elect the required number of Board of Directors members.

#### **13.13.17 Powers and Duties of the Board**

Subject to the authorities granted to the General Assemblies, the Board of Directors shall have the broadest powers to manage the Company, and shall in particular, and without limitation, have the power to:

- (a) appoint and remove the chief executive officer of the Company and such other executives;
- (b) establish committees of the Board of Directors and appoint their members, including, among others, the audit, compensation and nomination committees and any other specialised committee, and issue the committees' charters that determine the committees' powers and procedures;
- (c) establish the duties and set the remuneration of the chief executive officer and other executives;
- (d) approve the Company's system of internal controls and procurement policies;
- (e) authorise the Company's officers to sign on behalf of the Company;
- (f) approve the acquisition or disposition by the Company of its ownership of or interest in, companies, organisations, institutes, foundations, joint ventures, or other entities;
- (g) approve the establishment of subsidiaries, branches, offices and agencies, and approve the participation of others in such establishments;
- (h) take any acts deemed appropriate to promote the interests of companies it owns and direct and indirect subsidiaries (whether wholly or partially owned), including making equity investments, providing loans and credit facilities and transferring assets of the Company to any such companies and guaranteeing such companies;
- (i) guarantee or provide security for the principal and interest of any sukuk, bonds or other indebtedness issued by the Company, or obligations incurred by the Company, or any entity that is a subsidiary of the Company or in which the Company has a stake in or where such guarantee or security is otherwise in furtherance of the interests of the Company;
- (j) contract for loans and finance leases, grant mortgages, issue of sukuk, bonds, trust certificates or other debentures, and enter into any other financing instruments by the Company, whatsoever their terms;
- (k) purchase and sale of and mortgage over and invest in the Company's movable and immovable assets, terminate mortgages, and receive their value, and transfer the Company's title deeds;
- (l) obtain loans and other credit facilities on behalf of the Company, whatsoever their terms, including loans from governmental financing funds, affiliates, export credit agencies, commercial banks, financing and credit companies or any other financing entity;
- (m) approve the Company's financial position, financial statements and annual budget drawn up in accordance with the Bylaws;
- (n) approve the Company's business plans, including its programmes for implementing crude oil production decisions of the State and its programmes to explore, excavate and develop new hydrocarbon reserves, and the associated programmes for capital and other investments; and
- (o) present any matter for approval by the General Assemblies.

The Board of Directors may also by resolution delegate its authorities, as it deems appropriate, to any person or Board of Directors committee.

#### **13.13.18 Remuneration of the Board Members**

The remuneration of the Chairman and each other member of the Board of Directors shall be set by the Board of Directors as it deems appropriate, without exceeding one million eight hundred thousand Saudi Riyals

(SAR 1,800,000) for each member per year. In the event that the remuneration exceeded such amount, the matter shall be submitted to General Assemblies for a decision. The Board of Directors' report to the Ordinary General Assembly shall contain a comprehensive statement of all remuneration, attendance allowances, expenses and other benefits received by Board of Directors members from the Company during the fiscal year. Such report shall also include a statement of the earnings of the members of the Board of Directors in their capacities as employees or managers of the Company and their earnings for any technical, administrative or advisory work provided for the Company. The report shall also include a statement of the number of meetings of the Board of Directors and the number of meetings attended by each member from the date of the last meeting of the Ordinary General Assembly.

#### **13.13.19 *The Authorities of the Chairman, Deputy and Secretary***

The State shall appoint the Chairman and a deputy chairman from among the members of the Board, *provided* that the Chairman is one of the members nominated by the State. The Chairman is prohibited from holding any executive position in the Company. Only the State may dismiss the Chairman and the deputy chairman.

The Chairman shall have the authority to:

- (a) preside over General Assemblies, meetings of sukuk or bond holders or holders of other debt securities, and Board of Directors' meetings;
- (b) represent the Company before courts, arbitral tribunals and others including ministries and governmental entities, companies, courts, judicial and quasi-judicial committees, labour commissions of all types and levels, public prosecution, notaries, attestors licensed by the Ministry of Justice, and chambers of commerce and industry. The Chairman shall be entitled to plead, defend, initiate claims, enter into settlements and waivers, and shall have the right of exculpation, denial and affirmation, and the right to request oath, obtain judgments, request sentence reversal, appeal, seek reconsideration and execution of judgments;
- (c) sign the Articles of Association of companies that the Company establishes or participates in and their amendments, and sign contracts, loan agreements and other financial agreements, mortgages and leases, documents and deeds of sale and purchase of land and buildings. The Chairman may also sell, purchase, deposit, withdraw, transfer, subscribe to, invest or trade in, mortgage or terminate mortgages over shares in companies, entities or funds or others, and accept dividends and surplus and ownership certificates thereof and amending them, within the limits of the resolutions issued by the Board of Directors; and
- (d) have any other power authorised to him by the Board of Directors.

The Chairman may delegate any of his stated powers to others.

The Board of Directors shall appoint a Secretary chosen from its members or from other persons. The Board of Directors shall determine the authorities, rights and benefits of the Secretary.

The term of office of the Chairman, deputy chairman, and the Secretary (to the extent that the Secretary is a member of the Board of Directors) shall not exceed the term of his or her respective membership of the Board of Directors. The Board of Directors may reappoint and may dismiss the Secretary.

#### **13.13.20 *Board Meetings***

The Board of Directors shall meet at least four times per year at the invitation of the Chairman. The Chairman shall call the Board of Directors to meet whenever a meeting is requested by the State, the Ordinary General Assembly or two directors.

#### **13.13.21 *Quorum and Representation***

The meeting of the Board of Directors shall not be considered valid unless attended by at least a majority of the members of the Board of Directors, including the Chairman or deputy chairman, in person or by teleconference (or similar technology) where everyone can hear each other and participate simultaneously.

#### **13.13.22 *Board Decisions***

Resolutions shall be valid if voted for by a majority of the members of the Board of Directors present. In case of a tie of votes, the Chairman of the meeting shall have a casting vote. The Board of Directors may adopt resolutions without a meeting by unanimous written consent signed by all members of the Board of Directors. Resolutions adopted by unanimous written consent shall be deemed valid on the date on which the last member

of the Board of Directors has signed the same. These resolutions by written consent shall be presented to the Board of Directors at its next meeting for inclusion in the minutes of the meeting.

#### 13.13.23 *Deliberations of the Board*

The deliberations and the decisions of the Board of Directors shall be recorded in the minutes, which shall be signed by the Chairman of the meeting, the members of the Board of Directors present, and the Secretary.

#### 13.13.24 *Shareholders' Assemblies*

##### (a) Attending the General Assemblies

Each shareholder, whatever the number of his or her shares in the Company, including the State, has the right to attend the ordinary general assembly of shareholders (the “**Ordinary General Assembly**”) and the extraordinary general assembly of shareholders (the “**Extraordinary General Assembly**” and, together with the Ordinary General Assembly, the “**General Assemblies**”). Any shareholder may delegate his or her right to attend and act on such shareholder’s behalf at the General Assemblies to another person who is not a member of the Board of Directors pursuant to a written instrument executed by such shareholder in accordance with a form developed by the Company. The State may delegate its power to attend the General Assemblies to more than one person at the same time, *provided* that the State may delegate its right to act at such General Assemblies to one person only.

##### (b) Competencies of the Ordinary General Assembly

With the exception of the matters falling within the competencies of the Extraordinary General Assembly, the Ordinary General Assembly shall be competent in all matters related to the Company. The Ordinary General Assembly shall meet at least once annually during the six months after the end of the Company’s fiscal year. Other meetings of the Ordinary General Assembly shall be called as required by the Board of Directors in accordance with the Bylaws.

##### (c) Competencies of the Extraordinary General Assembly

The Extraordinary General Assembly shall be competent to amend the Bylaws, except for (i) matters which it is legally prohibited to amend; or (ii) the elimination of any right belonging to the State. The Extraordinary General Assembly may also issue resolutions regarding matters originally included in the competency of the Ordinary General Assembly under the same prescribed terms and conditions set forth for the Ordinary General Assembly.

##### (d) Convening General Assemblies

The General Assemblies shall be convened at the invitation of the Board of Directors. The Board of Directors shall call a meeting of the Ordinary General Assembly if so requested by the auditor, the Audit Committee, or one or more shareholders whose ownership percentage represents at least 5% of the ordinary shares. The auditor may call for the Ordinary General Assembly to convene if the Board of Directors fails to do so within 30 days of the auditor’s request.

##### (e) Record of Attendance at General Assemblies

Shareholders who wish to attend General Assemblies shall register their names with the Company in a manner specified by the Company before the time specified for such meeting.

##### (f) Invitation, Agenda and Record Date of General Assemblies

The invitation, agenda and record date for General Assemblies shall be published in a daily newspaper distributed in the region where the Company’s headquarters is located and, if the Company is listed on any exchange, on the website of the Company, at least 14 days prior to the date of such meeting. The invitation may also be sent along with the agenda and the record date to all shareholders via registered mail for delivery at least 14 days prior to the date of such meeting. Entitlement to vote at General Assemblies shall be given to shareholders of the Company registered in the shareholders’ register at the end of such record date. A copy of the invitation along with the agenda items shall be sent to the Ministry of Commerce and Investment and, if the Company is listed, the Capital Market Authority, within the period designated for publication.

(g) **Quorum of the Ordinary General Assembly**

An Ordinary General Assembly shall be valid only if one or more shareholders representing at least one quarter of the ordinary shares are in attendance (in person or by proxy or via modern telecommunication methods in accordance with the guidelines and restrictions approved by the Board), *provided* that the State is represented therein. However, if the required quorum is not met, then:

- (i) a second meeting may be held one hour after the expiration of the designated period for convening the first meeting, if the invitation for the first meeting included an announcement of the possibility of holding such a second meeting; or
- (ii) an invitation for a second meeting shall be sent for a second meeting to be held within 30 days following the first meeting. This invitation shall be disseminated by the method specified in the Bylaws.

In all cases, the second meeting shall be valid regardless of the number of ordinary shares represented therein, *provided* that the State is represented therein.

(h) **Quorum of the Extraordinary General Assembly**

An Extraordinary General Assembly shall be valid only if one or more shareholders representing one half of the ordinary shares are in attendance (in person or by proxy or via modern telecommunication methods in accordance with the guidelines and restrictions approved by the Board), *provided that* the State is represented therein. However, if the required quorum is not met, then:

- (i) a second meeting may be held one hour after the expiration of the designated period for convening the first meeting, if the invitation for the first meeting included an announcement of the possibility of holding a second meeting; or
- (ii) an invitation for a second meeting shall be sent in the manner provided for in the Bylaws.

In all cases, the second meeting shall not be valid unless attended by one or more shareholders representing at least one quarter of the capital (in person or by proxy or via modern telecommunication methods in accordance with the guidelines and restrictions approved by the Board), *provided* that the State is represented therein.

If the required quorum is not reached in the second meeting, an invitation for a third meeting shall be sent in the manner provided for in the Bylaws. The third meeting shall be valid regardless of the number of ordinary shares represented therein, *provided* that the State is represented therein.

(i) **Voting in the General Assemblies**

Each shareholder has one vote for each share in the General Assemblies. Cumulative voting shall be used for the election of the Board of Directors.

(j) **Resolutions of the General Assemblies**

Resolutions of the Ordinary General Assembly shall be adopted by vote of an absolute majority of the ordinary shares represented in the meeting. Resolutions of the Extraordinary General Assembly shall be adopted by vote of two-thirds of the ordinary shares represented in the meeting, unless the resolution is related to an increase of the shares of the Company or its merger with another company, in which case the resolution is valid only if adopted by three-quarters of the ordinary shares represented in the meeting.

The shareholders may adopt resolutions in writing without the need to hold a meeting if the shares of the Company were not listed on a stock exchange by presenting such resolutions by the Board of Directors to the holders of ordinary shares individually. Consent to such resolutions in writing shall be received from the absolute majority of the ordinary shares. These resolutions shall be presented to the next General Assemblies for inclusion in the minutes of the meeting.

(k) **Deliberation in General Assemblies**

The Board of Directors shall prepare the agenda for each meeting of General Assemblies. The CMA (if the Company is listed) and any shareholders representing at least 5% of the ordinary shares may add items to the agenda for any meeting of General Assemblies 14 days in advance of such meeting.

The Board of Directors shall set out the procedures for setting the agendas of General Assemblies, the nomination of directors and the rules and procedures for the orderly conduct of such General Assemblies,

including any notice and informational requirements and any other conditions or limitations relating to adding items to the agenda, nominating directors, maintaining decorum and advancing the discussion at such General Assemblies. Such policy shall be made available to the shareholders by the Board, reasonably in advance of any General Assemblies.

Every shareholder shall be entitled to inquire about the items listed on the agenda of General Assemblies and direct questions to the members of the Board of Directors or the auditor. The Board of Directors or the auditor shall answer such shareholder's questions, to such extent as would not jeopardize the Company's interest as determined by the Board of Directors in its sole discretion.

(l) **The Presidency of General Assemblies and Preparation of Minutes**

The meetings of the General Assemblies shall be presided over by the Chairman, the deputy chairman upon the absence of the Chairman, or whoever is delegated by the Board of Directors from among its members for such task, in the case of the absence of both the Chairman and the deputy chairman. The Secretary of the Board of Directors shall act as the secretary of the General Assemblies.

The General Assemblies' meeting minutes shall include the number of the shareholders (present or represented through any approved method) and the number of ordinary shares represented by each of them, whether personally or by proxy, along with the number of votes attributed to such shares, the resolutions adopted and the number of consenting and dissenting votes, as well as a brief summary of the discussions that took place in the meeting. Minutes shall be recorded on a regular basis after each meeting in a special register to be signed by the president of such General Assemblies, its secretary and the votes collector. The resolutions of General Assemblies shall be published and shared with the Ministry of Commerce and Investment or the CMA if the Company is listed on the stock exchange, in accordance with applicable laws and regulations.

13.13.25 ***The Auditor***

The Company shall have one auditor (or more) to be selected from the auditors licensed to practice in the Kingdom. Upon recommendation of the Board, the Ordinary General Assembly shall appoint each such auditor and fix the auditor's remuneration and the duration of the auditor's work. Such auditor may be appointed for any period *provided* that the natural person accountant leading the audit shall be replaced at least every five years. The Board of Directors may extend the natural person accountant's period for a maximum of two additional years at its discretion. General Assemblies may also replace the auditor at any time during the auditor's tenure.

The auditor shall have full access to the Company's books, records and other documents and shall be entitled to such data and information as the auditor may request to investigate the assets and liabilities of the Company, and whatever else falls within the scope of the auditor's work, to the extent that access to such information and data is reasonably necessary for the auditor to perform its duties without having access to governmental records, of any kind, related to the Company. The Chairman shall facilitate that the auditor is able to perform his or her duties without interference. The auditor shall report to the Board of Directors any difficulties encountered in the performance of his or her duties. If the Board of Directors fails to facilitate the performance of the auditor's duties, the auditor shall request a meeting with the Ordinary General Assembly to review the matter.

13.13.26 ***Financial Year***

The Company's fiscal year shall start on the first day of the month of January and end on the last day of the month of December of each year.

13.13.27 ***Financial Documents***

At the end of each fiscal year, the Board of Directors shall prepare the financial statements and profit and loss accounts of the Company and a report of its activities and financial position for such fiscal year, including the proposed method to distribute the dividends. The Board of Directors shall consider the recommendations of the Audit Committee with respect to the financial statements of the Company before approving the same.

The Chairman, the chief executive officer and the chief financial officer of the Company shall sign the documents set forth above and copies thereof shall be deposited at the Company's headquarters and be made available to the shareholders for informational purposes.

The Chairman shall provide the shareholders with the financial statements of the Company, the Board of Directors' report and the auditor's report, unless they are published in a daily newspaper distributed in the city where the headquarters of the Company is situated or on the website of the exchange upon which the Company is



listed. The Chairman shall also send copies of these documents to the Ministry of Energy, the Ministry of Commerce and Investment and, if the Company is listed on the exchange, the CMA, for informational purposes.

The State shall have the right to request any of the above documents, and the information underlying such documents, at any time, and the Chairman shall, subject to availability, deliver such documents, and the information underlying such documents, to the State, in accordance to the with the above.

#### 13.13.28 *Distribution of Dividends*

The Board of Directors must recommend a dividend policy, to be approved by an Ordinary General Assembly. The Board of Directors shall declare regular and interim dividends at any time at the Board of Directors' discretion in accordance with the Company's dividend policy. The resolution of the Board of Directors shall specify the amount or percentage of net profit to be distributed as dividends. Dividends may be paid in cash or in shares of the capital of the Company, and shall be non-refundable from the shareholders. Such resolution shall show the record date and the date of distribution. Entitlement to dividends shall be given to the shareholders registered in the shareholders' register at the end of the set record date.

Before payment of any dividend, there may be set aside out of any funds of the Company available for cash distributions such sum or sums as the Board of Directors at any time, in its discretion, thinks proper as a reserve or reserves to meet contingencies, to maintain stable distribution of dividends, or for such other corporate purposes as the Board of Directors shall think conducive to the interest of the Company, and the Board of Directors may modify or abolish any such reserve regardless of any requirement for reserves under the Companies Law.

The holders of preferred shares of any class or of any series shall be entitled to receive dividends at such rates, on such conditions and at such times as shall be stated in the Bylaws or in the resolutions in this regard adopted by the Extraordinary General Assembly. When dividends upon the preferred shares, if any, to the extent of the preference to which such preferred shares are entitled, shall have been declared and set apart for payment, a dividend on the remaining class or classes of ordinary shares may then be paid out of the remaining assets of the Company available for dividends.

#### 13.13.29 *Indemnification of Directors and Officers*

The Company shall indemnify, defend, and hold harmless its directors and officers (and former directors and officers) from and against all damages, liabilities, costs, expenses (including attorney's fees), judgments, fines, penalties, excise taxes, and amounts actually and reasonably incurred or paid by them in connection with any action, suit, or legal proceeding, whether civil, criminal, administrative, arbitral, legislative, investigative, or of any other kind, asserted or threatened to be asserted against them by reason of their actions, management or service as a director of the Company (including as a result of any erroneous judgment or evaluation of matters).

The indemnification referred to in the preceding paragraph shall not extend to matters where it has been finally adjudged that the damages, liabilities, expenses or amounts, fines, penalties, or taxes were caused by the wilful misconduct, fraud, or bad faith of the relevant director or officer.

Any of the foregoing incurred expenses shall be paid by the Company for the directors and officers (or former directors and officers) in advance of the final disposition of the claim, action, or legal proceedings promptly upon receipt of an undertaking by or on behalf of such person to repay such payments if it shall ultimately be determined that such person is not entitled to be indemnified by the Company in accordance with the preceding paragraph.

The Company shall not be liable for indemnity under the relevant Article of the Bylaws for:

- (i) any amount paid in settlement of any claim, action or legal proceedings effected without the Company's written consent, which consent shall not be unreasonably withheld, conditioned or delayed, or
- (ii) any judicial award if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defence of such action, claim or legal proceedings.

#### 13.13.30 *Limitation of Directors' and Officers' Liability*

Subject to maximum limit permitted by the laws of the Kingdom, no Director or officer of the Company will be personally liable to the Company or any of its shareholders for or with respect to any breach of the principles of truthfulness, honesty, loyalty, or care or any other fiduciary duty or other act or omission as a Director or as an officer of the Company, except and solely to the extent that it is finally judicially determined that such person

knowingly obtained anything of significant monetary value from the Company to which he or she was not legally entitled, acted in bad faith, or that such person was reckless (and not merely negligent or grossly negligent) in the conduct of his or her official duties. In any case, a director shall not be personally liable to the Company or any of its shareholders if he or she has taken his or her decisions in good faith, on the basis of knowledge of the subject matter of the decision made, to the extent that it is reasonable given the prevailing circumstances, and in the belief that this decision is in the best interest of the Company.

The exculpation and indemnification provided by, or granted herein, shall not prohibit any other rights to which those seeking indemnification may be entitled. The Company is specifically authorised to enter into individual contracts with any or all of its directors, officers, employees, or agents regarding exculpation, indemnification and advancement of expenses, to the fullest extent permitted under applicable laws and regulations. Any amendment or repeal of the present provisions shall not adversely affect any right or protection granted by these same provisions.

#### 13.13.31 *Directors, Officers and Employees' Insurance*

The Company may insure the following: (i) any person who is or was a director, officer, employee, or agent of the Company, and (ii) any person who is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability or claim asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Company would have the power to indemnify such person against such liability.

#### 13.13.32 *Conflict of Interest*

No member of the Board of Directors, nor any officer shall have any personal interest as is determined by the Board of Directors from time to time, whether direct or indirect, in the transactions or contracts made for the Company, unless through prior authorisation from the Board of Directors. A member of the Board of Directors shall declare to the Board of Directors any direct or indirect personal interest that such member has in such transactions or contracts. Such declaration must be recorded in the meeting minutes of the Board of Directors, where the Board of Directors, except for a member who has a direct or indirect personal interest in such transactions and contracts, shall attend the meeting participate in the deliberations and vote on the relevant resolution to be adopted in this respect in the Board of Directors' meeting. The Chairman shall inform the Ordinary General Assembly upon convening of the transactions and contracts, voted on by the Board of Directors, and in which any member of the Board of Directors has a direct or indirect personal interest. Such notification shall be accompanied by a special report from the Company's external auditor.

The State is not a member of the Board of Directors, for the purposes of applying the above, and may vote in General Assemblies in any circumstance and on any decision, including decisions concerning contracts and transactions between the State and the Company or other companies wholly or partially owned by the State or the Company; or contracts and transactions in which the State-nominated director has a direct or indirect personal interest therein. Government-employed directors nominated by the State shall be deemed to have no personal interest, directly or indirectly in contracts and transactions between the State and the Company or other companies wholly or partially owned by the State, merely due to them being government employees, agents of the State or State-nominated directors.

#### 13.13.33 *Derivative Claim against the Board of Directors*

Without prejudice to the right of any Shareholder or group of Shareholders to directly bring any action against the Company or the Board of Directors, Shareholders with ownership representing at least 0.1% of the Shares shall have the right to request the Company to file a liability claim against the members of the Board of Directors if the wrongful act committed by them would significantly harm such shareholders, and was committed in bad faith, or was reckless (and not merely negligent or grossly negligent), in the conduct of their official duties, or is in breach of the Management Standards ("**Claim Request**"). Such Shareholders shall submit the Claim Request to a committee formed for this purpose by the Board of Directors, which shall consist of independent members of the Board of Directors and/or of external consultants ("**Claim Committee**"). The Claim Committee shall assess the Claim Request and issue its decision in relation to such Claim Request within 90 days of the date of submission of the Claim Request. The decisions of the Claim Committee shall be issued by a majority of its members. Once the Claim Committee approves the Claim Request, the Claim Committee shall appoint the law firm or lawyers to bring legal action and the Claim Committee shall follow up on such legal action. Legal action

may be brought only if the Company's right to file such claim is still valid. Any such claim is subject to any limitations as set forth in the Bylaws.

#### **13.13.34 *Exclusive State Ownership and Control***

The provisions of the Bylaws shall not affect the State's exclusive ownership and control of all hydrocarbon resources within its territory in accordance with the applicable laws and regulations of the Kingdom, the State remains solely responsible for making final decisions to set the maximum levels of hydrocarbons that can be produced at any given point in time, the levels of maximum sustainable hydrocarbons production capability to be maintained and maintains its exclusive right to make production decisions within its territory, on the basis of a number of considerations solely determined by the State, including the State's economic development, environment conservation, national security, political and developmental goals, foreign and diplomatic policy, domestic energy needs, public interest and any other sovereign interest that the State takes into account.

The provisions of the Bylaws shall not affect the authority of the Ministry of Energy to prepare the Kingdom's hydrocarbons' strategies and policies and supervise their implementation to ensure the development, good utilisation and maintenance of hydrocarbon resources.

#### **13.13.35 *Disputes***

The competent courts and the relevant judicial committees of the Kingdom shall be the sole and exclusive forum for any action or proceeding brought by the Company or against it, including: (i) any action asserting a claim of liability against any director, officer, or other employees of the Company to the Company or the Company's shareholders, and (ii) any action asserting a claim arising pursuant to any provision of the laws of the Kingdom or the Bylaws. Any person or entity which owns shares of the Company shall be deemed to have notice of and consented to the provisions of the Bylaws.

As an exception to the above, the Company may consent in writing to arbitration or to be subject to any alternative judicial forum for any of its contracts and dealings.

#### **13.13.36 *Relevant Regulations***

The Companies Law, the CML and their regulations shall apply to all matters not addressed in the Bylaws.

### **13.14 *Description of the Shares***

#### **13.14.1 *Voting Rights***

Entitlement to vote at General Assemblies shall be given to shareholders of the Company registered in the shareholders' register at the end of such record date.

#### **13.14.2 *Rights to Dividends***

The Board of Directors recommends the dividend policy, to be approved by an Ordinary General Assembly. The Board of Directors shall declare regular and interim dividends at any time at the Board of Directors' discretion in accordance with the Company's dividend policy. The resolution of the Board of Directors shall specify the amount or percentage of net profit to be distributed as dividends. Dividends may be paid in cash or in shares of the capital of the Company and shall be non refundable from the shareholders. Such resolution shall show the record date and the date of distribution. Entitlement to dividends shall be given to the shareholders registered in the shareholders' register at the end of the set record date.

#### **13.14.3 *Buy-back of Shares***

The Board of Directors may by resolution approve the repurchase of shares by the Company, whether or not in conjunction with a reduction in the capital of the Company and whether or not for the purpose of allocating such shares to its employees within an employee share plan, or for such other purpose as the Board of Directors may determine is in the best interest of the Company.

#### **13.14.4 *Liquidation***

The Company may only be dissolved, expired or liquidated by a resolution of the Council of Ministers.

## 14. TAXATION AND ZAKAT IN THE KINGDOM

*The following discussion contains a general description of certain Saudi Arabian tax/Zakat considerations relating to the acquisition, ownership and disposition of the Offer Shares. It does not purport to be a comprehensive description of all tax/Zakat considerations that may be relevant to a decision to purchase Offer Shares, nor does it address the considerations that are dependent on individual circumstances, whether in the Kingdom or elsewhere. Prospective investors in the Offer Shares should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Offer Shares and receiving payments of dividends and the consequences of such actions under the tax laws of those countries. This overview is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### 14.1 Overview of Saudi Tax and Zakat Rules

#### 14.1.1 Income Tax

According to the Income Tax Law, a resident company in the Kingdom with foreign (i.e., non-GCC) ownership (on its foreign partner's (shareholder's) share) and a non-resident who carries out business in the Kingdom through a Permanent Establishment (as defined below) are subject to corporate income tax in the Kingdom at the rate of 20% (if not engaged in oil and hydrocarbon production activities, see below). Resident companies wholly owned by GCC Persons (in addition to Persons subject to Zakat listed below under the section entitled "Zakat") are subject to Zakat instead of corporate income tax. Resident companies owned jointly by GCC and non-GCC Persons are subject to corporate income tax in respect of the share of their profit attributable to the ownership (legal or beneficial) percentage held by non-GCC Persons and Zakat on the ownership (legal or beneficial) percentage held by GCC Persons.

Shares held directly by GCC Persons or via other GCC companies (where the shareholding structure does not fall outside of the GCC) in a resident company are subject to Zakat and not income tax. In determining the tax/Zakat profile of a Saudi tax/Zakat resident company, the GAZT applies a "look-through" approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (i.e., at the ultimate shareholder level). The amendments to the implementing regulations of the Income Tax Law ("**Income Tax Regulations**") issued under Ministerial Resolution No. 1727 dated 25/5/1439H (corresponding to 10 February 2018G) have introduced new provisions that may limit the "look-through" approach by GAZT to up to two layers of shareholding above the relevant Saudi company. These amendments have not yet been comprehensively tested with GAZT to assess their practical application.

Saudi tax/Zakat resident entities operating in the oil and hydrocarbon production sector are subject to corporate income tax irrespective of the nationality of their shareholders/owners. An amendment to the Income Tax Law (effective from 1 January 2017G) revised the tax rates applicable to such entities to range from 50% to 85% depending on the level of total capital investment of the relevant entity:

- entities with capital investment of more than SAR 375 billion (\$100 billion) are subject to 50% corporate income tax;
- entities with capital investment between SAR 300 billion (\$80 billion) to SAR 375 billion (\$100 billion) are subject to 65% corporate income tax;
- entities with capital investment between SAR 225 billion (\$60 billion) to SAR 300 billion (\$80 billion) are subject to 75% corporate income tax; and
- entities with capital investment of less than SAR 225 billion (\$60 billion) are subject to 85% corporate income tax.

However, Royal Decree No. M/13, dated 18/1/1441H (corresponding to 17 September 2019G), Council of Ministers Resolution No. 54, dated 18/1/1441H (corresponding to 17 September 2019G) and Ministerial Resolution issued by the Ministry of Finance No. 559, dated 10/2/1441H (corresponding to 9 October 2019G) provide that the tax rate applicable to the downstream activities (as is expected to be defined by GAZT in collaboration with the Ministry of Energy) of certain tax payers undertaking domestic oil and hydrocarbon production activities will be the general corporate tax rate of 20%, for a five-year period beginning on 1 January 2020G, provided the relevant taxpayer splits its downstream activities from the oil and hydrocarbon production activities (into one or more separate legal entities) before 31 December 2024G. If the taxpayer does not comply in so consolidating its downstream activities from the oil and hydrocarbon production activities by 31 December 2024G, income from downstream activities will be taxed retroactively on an annual basis for such

five-year period in accordance with the multi-tiered tax rates applicable to domestic oil and hydrocarbon production companies. In such case, the taxpayer will be required to pay the difference in taxes due to the Government.

In addition, effective 1 January 2018G, a 20% corporate income tax rate applies to companies engaged in natural gas activities (previously 30%). Companies involved in both oil and hydrocarbons production activities as well as natural gas investment are required to prepare tax computation for each activity separately.

Furthermore, according to amendments to the Income Tax Law effective 1 January 2018G, ownership by companies engaged in oil and hydrocarbon production activities in Saudi Arabian entities that are not carrying out oil and hydrocarbons production activities should generally be subject to corporate income tax at 20% (at the level of the investee/subsidiary).

Non-GCC natural persons resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Chapter 2—Article 2 of the Income Tax Law) are not currently subject to income tax or Zakat in the Kingdom according to existing practices of GAZT (as compliance/administration of Income Tax Law is not currently enforced by GAZT on individuals).

#### 14.1.2 *Zakat*

Zakat is a religious obligation imposed on Muslims under Sharia to pay a fixed percentage of their wealth for the relief of poverty. The Zakat implementing regulations of the Kingdom were issued by Ministerial Resolution No. 2082, dated 28 February 2017G (the “**Zakat Regulations**”). The Zakat Regulations are effective from the date of their issuance and supersede all prior directives, resolutions, instructions and circulars issued by GAZT. Furthermore, the Ministry of Finance has issued new Zakat implementing regulations under Ministerial Resolution No. 2216 dated 7/7/1440H (corresponding to 14 March 2019G) (“**New Zakat Regulations**”). The New Zakat Regulations are effective (and replace the existing Zakat Regulations) for financial years starting 1 January 2019G.

According to the New Zakat Regulations, Zakat is assessed on/applicable to:

- GCC Persons resident in the Kingdom;
- resident companies wholly owned by GCC Persons and on the ownership (legal or beneficial) percentage held by GCC Persons with respect to a resident company jointly owned by GCC and non-GCC Persons;
- GCC Persons carrying out activities in the Kingdom through a Permanent Establishment for tax purposes as defined under Chapter 2—Article 4 of the Income Tax Law (except for non-resident GCC Persons who do not meet certain conditions, as mentioned below, in which case they would be subject to corporate income tax); and
- resident companies listed on a financial market in the Kingdom on the shares held by non-GCC Persons (except for ownership of founders and those considered as founders based on the articles of association or other legal documents), and on the shares held by government entities.

Notwithstanding the above, Zakat is not assessed/applicable to:

- (i) resident companies operating in the oil and hydrocarbon production sector; and
- (ii) any entity (or Zakat payer) that GAZT issues a decision to exempt from Zakat.

Based on exclusion (i) set forth above, resident companies operating in the oil and hydrocarbon production sector listed on a financial market in the Kingdom should continue to be subject to corporate income tax (and not Zakat) post-listing.

For completeness, as per the New Zakat Regulations, a Permanent Establishment of GCC Persons in the Kingdom is subject to Zakat provided at least two of the following three conditions are met in respect of the central management of such Permanent Establishment (as set out under Chapter 1—Article 2(4)):

- (i) Board of Directors’ ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment’s business are held in and made from the Kingdom;
- (ii) senior executive decisions relating to the Permanent Establishment’s functions such as executive directors / deputies’ decisions are made in the Kingdom; and
- (iii) the Permanent Establishment’s business is mainly (i.e., 50% of its revenues) generated from the Kingdom.

There are certain rules that apply to the method of calculating the Zakat liability. In general, Zakat is currently levied at a fixed rate of 2.5% on the higher of the adjusted Zakatable profits or the Zakat base (following a Hijri year) which, in general, comprises equity, loans (subject to certain conditions) and provisions reduced by, among other items, certain deductible long-term investments and fixed assets.

Under the New Zakat Regulations, equity investments in a Saudi company are generally deductible from the Zakat base of the investor to the extent (i) the investment is not held for trading purposes and (ii) the investee is registered with GAZT and subject to Zakat according to the applicable Zakat regulations. Investments in Saudi Zakat paying entities held for trading purposes (i.e., short-term investments) should not be deductible from the Zakat base at the level of the investor.

GCC individuals resident in the Kingdom for tax/Zakat purposes should in principle be subject to Zakat in the Kingdom if they carry out activities in the Kingdom, however, Zakat compliance/administration is not currently enforced by GAZT for such individuals. Pursuant to Royal Order No. 16712, dated 11/3/1441H (corresponding to 8 November 2019G), the zakat obligations resulting from investments in the Shares listed on the Exchange will be settled as described in the following sentence. The Zakat amounts resulting from such investments will be calculated and deducted from tax payments by the Company and transferred to the zakat account at the Ministry of Finance for transfer eligible zakat recipients in accordance with applicable law.

#### 14.1.3 *Withholding Tax*

The Income Tax Regulations provide that no withholding tax (“WHT”) should apply to distribution of dividends made by a company engaged in the oil or hydrocarbon or gas production sector (even if such distributions are made to investors not resident in the Kingdom).

### 14.2 **Certain Tax and Zakat Implications for Shareholders**

#### 14.2.1 *GCC Shareholders who are resident in the Kingdom*

Shareholders who are GCC Persons (as defined below) and resident in the Kingdom for tax purposes (as defined in Chapter 2 – Article 3 of the Income Tax Law and Chapter 1—Article 3 of the New Zakat Regulations) are not subject to any Saudi Arabian income tax, whether by way of withholding or direct assessment, in respect of any profit payment received or gain realised in respect of the Shares. However, such Shareholders may be subject to Zakat in respect of any dividend payments received or gain realised in respect of the Shares (to the extent they are legal entities registered for Zakat purposes in the Kingdom and not natural persons), including capital gains on the sale of Shares.

Additionally, investment in the Shares by GCC Persons (whether held for trading or not) should not be deducted from their Zakat base given the Company has not been subject to Zakat in the Kingdom (and is subject to corporate income tax instead).

GCC individuals resident in the Kingdom for tax purposes should in principle be subject to Zakat in the Kingdom if they carry out activities in the Kingdom, however, Zakat compliance/administration is not currently enforced by GAZT for such individuals.

#### 14.2.2 *Non-GCC Shareholders who are resident in the Kingdom*

Shareholders who are non-GCC legal entities and resident in the Kingdom for tax purposes (as defined in Chapter 2—Article 3 of the Income Tax Law) should be subject to Saudi Arabian corporate income tax at the rate of 20% (assuming they are owned by non-GCC persons and not listed on a financial market in the Kingdom) on any dividend income generated or gain realised in respect of the Shares (subject to potential exemptions described below), but they will not be subject to Zakat.

The considerations described above also apply to Saudi Arabian companies wholly owned by non-GCC Persons (which should be subject to Saudi Arabian corporate income tax) and on the income attributable to the ownership of non-GCC Persons in Saudi Arabian companies (which should be subject to Saudi Arabian corporate income tax on the profits attributable to such non-GCC ownership).

However, the Income Tax Law and Income Tax Regulations provide for exemption from income tax of capital gains realised from the disposal of securities traded in a financial market in the Kingdom (or outside of the Kingdom if they are also traded in the Kingdom) subject to meeting the following conditions:

Securities (shares) traded in the Kingdom:

- The disposal is carried out in accordance with the regulations of the financial market in the Kingdom; and
- The investor did not hold the securities (shares) before the effective date of the Income Tax Law (i.e., 30 July 2004G).

Securities (shares) traded outside the Kingdom:

- The securities (shares) are also traded in a financial market in the Kingdom; and
- The investor did not hold the securities (shares) before the effective date of the Income Tax Law (i.e., 30 July 2004G).

In addition, dividend income (whether cash or in-kind) earned by such corporate investors from investments in Saudi or non-Saudi capital companies (resident or non-resident in the Kingdom) are exempt from corporate income tax in the Kingdom if the following conditions are met:

- Minimum shareholding percentage: the investment represents 10% or more in the capital of such capital company during the years in which such dividends are distributed; and
- Minimum shareholding period: the minimum shareholding percentage is held at least for one year during the years in which such dividends are distributed.

Moreover, Shareholders who are non-GCC natural persons and resident in the Kingdom not performing commercial activities in the Kingdom (as defined in Chapter 2—Article 2 of the Income Tax Law) are not currently subject to Saudi Arabian income tax or Zakat on any dividend income generated or gains realised in respect of the Shares, according to existing practices of GAZT (as compliance/administration of Income Tax Law is not currently enforced by GAZT on individuals).

#### 14.2.3 *Shareholders who are not resident in the Kingdom*

Shareholders, either natural persons or legal entities, who are not resident in the Kingdom (whether such Shareholders are GCC nationals or non-GCC nationals (including Shareholders resident in the GCC)) and do not have a Permanent Establishment in the Kingdom for tax/Zakat purposes, are generally subject to Saudi Arabian WHT on dividends paid to them by entities resident in the Kingdom, unless such WHT is reduced or eliminated pursuant to exemptions stipulated in the Income Tax Law or under the terms of an applicable double tax treaty.

The Income Tax Regulations provide that no WHT should apply to distribution of dividends made by a company engaged in the oil or hydrocarbon or gas production sector (even if such distributions are made to investors not resident in the Kingdom). Accordingly, investors in the Company who are not resident in the Kingdom should not be subject to Saudi Arabian WHT on dividends paid to them by the Company.

Shareholders, either natural persons or legal entities, who are not resident in the Kingdom (whether such Shareholders are GCC nationals or non-GCC nationals (including Shareholders resident in the GCC)) and do not have a Permanent Establishment in the Kingdom for tax/Zakat purposes, are generally subject to 20% income tax on gains realised from the disposal of shares in a Saudi company (subject to potential tax exemption described below and/or relief of such taxes under an applicable double tax treaty).

However, the Income Tax Law and Income Tax Regulations provide for exemption from income tax of capital gains realised from the disposal of securities traded in a financial market in the Kingdom (or outside of the Kingdom if they are also traded in the Kingdom) subject to meeting the following conditions:

Securities (shares) traded in the Kingdom:

- The disposal is carried out in accordance with the regulations of the financial market in the Kingdom; and
- The investor did not hold the securities (shares) before the effective date of the Income Tax Law (i.e., 30 July 2004G).

Securities (shares) traded outside the Kingdom:

- The securities (shares) are also traded in a financial market in the Kingdom; and
- The investor did not hold the securities (shares) before the effective date of the Income Tax Law (i.e., 30 July 2004G).

Non-resident entities with a Permanent Establishment in Kingdom are subject to Saudi Arabian corporate income tax at the rate of 20% in respect of any dividend income generated or gain realised in respect of the Shares and attributable to such Permanent Establishment (subject to potential exemptions described above under “Non-GCC Shareholders who are resident in the Kingdom” except for exemption from income tax on dividend income), but will not be subject to Zakat (unless they are GCC Persons with Permanent Establishment in the Kingdom that meet the conditions set out under Chapter 1 – Article 2(4) of the New Zakat Regulations).

#### 14.2.4 *Indirect and Transfer Taxes/Stamp Duty*

There are no transfer or stamp duty taxes currently applicable in the Kingdom.

The Kingdom has introduced VAT with an effective date of 1 January 2018G pursuant to ratifying the GCC VAT framework agreement between the GCC member states. To this effect, VAT legislation has also been issued by GAZT in line with the GCC framework agreement. The VAT legislation in the Kingdom provides that dividend payments are out of scope of VAT. Additionally, the VAT legislation in the Kingdom exempts the transfer of shares from VAT.

#### 14.3 **Definitions**

For the purposes of this summary:

- (a) A “**GCC Person**” means: (i) a natural person having the nationality of any of the GCC Countries and (ii) any legal entity wholly owned by GCC nationals and established under the laws of a GCC country.
- (b) Subject to the exceptions stipulated in the Income Tax Law, a “**Permanent Establishment**” of a non-resident in the Kingdom represents a permanent place for the non-resident’s activity where such person conducts the activity either fully or partly, which also includes any activity conducted by the non-resident through an agent. A non-resident carrying out an activity in the Kingdom through a licensed branch is considered to have a Permanent Establishment in the Kingdom.
- (c) A Person is “**resident**” in the Kingdom for tax purposes (as defined in Chapter 2—Article 3 of the Income Tax Law), if it meets the following conditions:
  - (i) a natural person is considered a tax resident in the Kingdom for a taxable year if such person meets either of the two following conditions:
    - (I) such person has a permanent place of abode in the Kingdom and is physically present in the Kingdom for a total of not less than 30 days in the taxable year; or
    - (II) such person is physically present in the Kingdom for a period of not less than 183 days in the taxable year; and
  - (ii) a company is considered a tax resident in the Kingdom during a taxable year if it meets either of the following conditions:
    - (I) it is formed in accordance with the Saudi Companies Law; or
    - (II) its place of central control and management is located in the Kingdom.
- (d) A “**Hijri**” year is an Islamic calendar year which is around 354 days.

Shareholders are not be deemed to be resident in the Kingdom solely by reason of holding Shares in the Company.



## 15. UNDERWRITING

While, based on a waiver from the requirements of Article 27(a) of the OSCO Rules, the Offer Shares will not be underwritten, the Company and the Selling Shareholder will enter into an underwriting agreement with the Underwriters (the “**Underwriting Agreement**”), pursuant to which the Underwriters have agreed, subject to the satisfaction of certain conditions contained in (i) the Underwriting Agreement and (ii) a coordination agreement between the Company and the Joint Financial Advisors, the Joint Global Coordinators and the Joint Bookrunners (the “**Coordination Agreement**”), to cover the settlement risk associated with the Offering. The names and addresses of the Underwriters and a summary of the Underwriting Agreement are set out below:

### 15.1 Underwriters

#### Underwriter

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# J.P.Morgan

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**BofA SECURITIES** 

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الأهلي كابيتال  
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الراجحي المالية  
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 **BOC INTERNATIONAL**

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## Underwriter

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Deutsche Securities



دويتشه للأوراق المالية  
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## Underwriter

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Tel: +44 20 7567 8000

Fax: +44 20 7568 4800

Website: [www.ubs.com](http://www.ubs.com)

E-mail: [OL-ECMG-Syndicate-EMEA@ubs.com](mailto:OL-ECMG-Syndicate-EMEA@ubs.com)



## 15.2 Summary of Underwriting Agreement

Under the terms and subject to the conditions contained in the Underwriting Agreement and the Coordination Agreement:

- (a) the Selling Shareholder undertakes to the Underwriters that it will, in accordance with the terms and conditions of the Offer, sell Offer Shares to (i) the Institutional Subscribers that participate in the book-building process according to the allocations determined by the Company, the Selling Shareholder, the Joint Financial Advisors and Joint Bookrunners and (ii) any Individual Investor whose application for Offer Shares has been accepted by a Receiving Entity; and
- (b) the Underwriters undertake to the Company and the Selling Shareholder that they will, in accordance with the terms and conditions of the Offer, purchase from the Selling Shareholder any Offer Shares that are not subscribed for by Institutional Subscribers or Individual Investors pursuant to the Offering and make payment of the Final Offer Price in respect of such Offer Shares on a *pro rata* basis with respect to their respective underwriting proportions set out in following table.

**Table 93: Underwriting commitments**

Underwriter	Number of Offer Shares Underwritten	Percentage of Offer Shares Underwritten
Citigroup Saudi Arabia		
Credit Suisse Securities (Europe) Limited		
Goldman Sachs International		
HSBC Saudi Arabia		
J.P. Morgan Securities plc		
Merrill Lynch Kingdom of Saudi Arabia		
Morgan Stanley & Co. International plc		
NCB Capital Company		
Samba Capital & Investment Management Company		
Al Rajhi Capital		
Banco Santander, S.A.		
BNP PARIBAS		
BOCI Asia Limited		
Crédit Agricole Corporate and Investment Bank		
Deutsche Securities Saudi Arabia		
EFG Hermes KSA		
First Abu Dhabi Bank PJSC		
GIB Capital		
Mizuho International plc		
RBC Europe Limited		
Riyad Capital		
Saudi Fransi Capital		
SMBC Nikko Capital Markets Limited		
Société Générale		
UBS AG, London Branch		
<b>Total</b>	=====	===== <b>100.00%</b> =====

Source: Underwriting Agreement.

The Company and Selling Shareholder have committed to satisfy all the provisions of the Underwriting Agreement and the Company has committed to satisfy all the provisions of the Coordination Agreement.

### 15.3 Underwriting Costs

The Selling Shareholder will pay fees to the Underwriters based on the total value of the Offering, as well as the Underwriters' costs and expenses in connection with the Offering.

### 15.4 Contractual Lock-Up Period

Pursuant to the Underwriting Agreement and the Coordination Agreement, the Selling Shareholder will be restricted from disposing of Shares, and the Company will be restricted from issuing any additional Shares, during the Contractual Lock-up Period (after the expiry of the Statutory Lock-up Period), unless one third (i.e. three) (or more) of the Joint Global Coordinators (or their affiliates) that are party to the Underwriting Agreement agree to the actions of the Selling Shareholder (pursuant to the Underwriting Agreement) or one-third (i.e. three) (or more) of the Joint Global Coordinators agree to such issuances (pursuant to the Coordination Agreement). Any such waiver will be without prejudice to the waiver granted to the Selling Shareholder by the CMA related to the Selling Shareholder's ability to dispose of its Shares during the Statutory Lock-up Period. For additional information, see Section 18.7 (*Lock-Up Period*).

## **16. EXPENSES**

The Selling Shareholder will reimburse Saudi Aramco for all fees, costs and expenses incurred in connection with the Offering. These fees, costs and expenses include the amounts payable to the Advisors, Consultants, Auditor, SABIC Auditor, Stabilising Manager and Receiving Entities, legal, marketing, printing and distribution expenses and other relevant expenses.



## 17. WAIVERS

The Company has obtained specific waivers from certain regulatory requirements as per justifications submitted by the Company. These include:

- (a) A waiver from the requirements of Subsections 7 and 8 of Section 4, and Subsection 2 of Section 23 of Annex 9 of the Offer of Securities and Continuing Obligations (“OSCO”) in relation to the disclosure of the nature and total value of the Offer Shares being offered through the Offering; and the percentage such shares to the total overall shares of the Company in the Prospectus; *provided* that the maximum percentage of Offer Shares of the Company’s total share capital is disclosed in supporting documentation submitted with the registration and offer of Shares set out in Article 29(a) of the OSCO and a waiver from the requirements of Subsection (2) of Article 7(b) of the Listing Rules in relation to the minimum public float requirement relating to such Shares.
- (b) A waiver from the requirement of Subsection 16 of Article 29(a) of the OSCO in relation to the requirement to prepare and submit a written legal due diligence report to the CMA; *provided* that the Legal Advisor submits an amended due care letter to the CMA in accordance with Article 23(b) of OSCO.
- (c) A waiver from the requirement of Part 3-A and 3-D of the Book-Building Instructions in order to allow for a concurrent offering to Institutional Subscribers and Individual Investors as per the submitted offering mechanism and to allow the period for the book-building to exceed 14 calendar days to become 18 calendar days.
- (d) A waiver from the requirements of Article 34.A of OSCO reducing the period for which the Prospectus must be published by the Company and available to the public for a period of less than 14 days prior to the commencement of the Retail Offering to become eight calendar days.
- (e) A waiver from the definition of “related parties” under OSCO replacing it with the following definition for the purpose of disclosing material contracts and transactions with related parties in this Prospectus:
  - (i) significant shareholders of the issuer;
  - (ii) subsidiaries of the issuer (to the extent that they enter into transaction on terms that are not at arm’s length), excluding wholly owned subsidiaries;
  - (iii) directors and senior executives of the issuer;
  - (iv) directors and senior executives of subsidiaries of the issuer, excluding wholly owned subsidiaries;
  - (v) directors and senior executives of substantial shareholders of the issuer;
  - (vi) any relatives of persons described in paragraphs (i), (iii), (iv) or (v) above; and
  - (vii) any company controlled by any person described in paragraphs (i), (iii), (iv), (v) or (vi).
- (f) A waiver from the requirements of Sections 25.5 and of Annex 9 of OSCO to include its annual financial statements for the year ended 31 December 2016G from being part of the documents available for public inspection and from appending the same to the Prospectus.
- (g) Permit the Substantial Shareholder to dispose of its Shares during the lock-up period referred to in Section 18.7 (*Lock-Up Period*), as an exemption from the Statutory Lock-up Period set out in Article 70(a) of OSCO, without prejudice to any other applicable regulations.

## 18. SUBSCRIPTION TERMS AND CONDITIONS

The Company has made an application to the CMA for registration and offer of the Offer Shares and an application for listing of the Shares on the Exchange.

All Subscribers in the Offering must carefully read the subscription terms and conditions before completing the Retail Subscription Form. Submission of a Retail Subscription Form to a Receiving Entity is deemed as acceptance and approval of the Subscription Terms and Conditions.

### 18.1 Offering

#### 18.1.1 *Number of Offer Shares and Aggregate Size of the Offering*

Offering of            ordinary shares of Saudi Aramco, representing            % of its share capital, at a Final Offer Price of SAR            per Share, with a total value of SAR            .

#### 18.1.2 *Offering Period*

##### 18.1.2.1 *Book-Building Period*

The Book-Building Period begins on 20/3/1441H (corresponding to 17 November 2019G). The Book-Building Period closes at the end of 7/4/1441H (corresponding to 4 December 2019G).

##### 18.1.2.2 *Retail Offering Period*

The Retail Offering Period begins on 20/3/1441H (corresponding to 17 November 2019G). The Retail Offering Period closes at the end of 1/4/1441H (corresponding to 28 November 2019G).

#### 18.1.3 *Categories of Investors Participating in the Offering*

The Offering is directed at, and may be accepted only by investors in the following two tranches:

##### **Tranche (A) (Institutional Subscribers):**

Institutional Subscribers eligible to participate in the book-building process as specified under the Book-Building Instructions and other terms and conditions set forth in this Prospectus. The number of Offer Shares allocated to Institutional Subscribers is            Shares representing            % of the share capital, in accordance with the Book-Building Instructions. The Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, shall determine the number and percentage of Offer Shares which will be allocated to the Institutional Subscribers.

##### **Tranche (B) (Individual Investors):**

Saudi Arabian nationals, including any Saudi female divorcee or widow with minor children from a marriage to a non-Saudi person who can subscribe for her own benefit or in the names of her minor children, on the condition that she proves that she is a divorcee or widow and the mother of her minor children, any non-Saudi natural person who is resident in the Kingdom and any GCC national, in each case who has a bank account with one of the Receiving Entities. Subscription of a person in the name of his divorcee shall be deemed invalid, and if a transaction of this nature has been proved to have occurred, then the regulations shall be enforced against such person. If a duplicate subscription is made, the second subscription will be considered void and only the first subscription will be accepted. The number of Offer Shares allocated to Individual Investors is            Shares representing            % of the share capital. The Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators, shall determine the number and percentage of Offer Shares which will be allocated to the Individual Investors. The targeted percentage of Offer Shares allocable to Individual Investors will be up to 0.5% of the Shares.

#### 18.1.4 *Subscription by Individual Investors*

Each Individual Investor must submit a Retail Subscription Form and must subscribe in multiples of ten (with a minimum subscription of ten Offer Shares). There is no maximum number of shares or maximum subscription amount that can be applied for or subscribed by Individual Investors. Changes to or withdrawal of the subscription application shall not be permitted once the Retail Subscription Form has been submitted.

Retail Subscription Forms will be available during the Retail Offering Period at all Receiving Entities' branches. Retail Subscription Forms shall be completed in accordance with the instructions mentioned below. Individual Investors who have recently participated in recent initial public offerings can also subscribe through the internet, mobile applications, telephone banking or ATMs of any of the Receiving Entities' branches that offer any or all such services to its customers, provided that the following requirements are satisfied:

- (a) the Individual Investor must have a bank account at a Receiving Entity which offers such services; and
- (b) there have been no changes to the personal information or data of the Individual Investor since his subscription in the last Offering.

A signed Retail Subscription Form must be submitted to any branches of the Receiving Entities representing a legally binding agreement between the Selling Shareholder and the relevant Individual Investor submitting it.

Individual Investors may obtain a copy of this Prospectus from any branches of the Receiving Entities or the websites of the Company ([www.saudiaramco.com](http://www.saudiaramco.com)) and the Receiving Entities listed below:

#### Receiving Entities

##### **National Commercial Bank**

King Abdulaziz Road  
P.O. Box 3555  
Jeddah 21481  
Kingdom of Saudi Arabia  
Tel: +966 12 646 4000  
Fax: +966 12 646 4466  
Website: [www.alahli.com](http://www.alahli.com)  
E-mail: [contactus@alahli.com](mailto:contactus@alahli.com)



##### **Saudi British Bank (SABB)**

Prince Abdulaziz bin Mosaad bin Jelwi Street  
P.O. Box 9084  
Riyadh 11413  
Kingdom of Saudi Arabia  
Tel: +966 11 440 8440  
Fax: +966 11 276 3414  
Website: [www.sabb.com](http://www.sabb.com)  
E-mail: [sabb@sabb.com](mailto:sabb@sabb.com)



##### **Samba Financial Group**

King Abdulaziz Road  
P.O. Box 833  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 11 477 4770  
Fax: +966 11 479 9402  
Website: [www.samba.com](http://www.samba.com)  
E-mail: [customercare@samba.com](mailto:customercare@samba.com)



##### **Al Rajhi Bank**

King Fahad Road  
P.O. Box 28  
Riyadh 11411  
Kingdom of Saudi Arabia  
Tel: +966 11 828 2515  
Fax: +966 11 279 8190  
Website: [www.alrajhibank.com.sa](http://www.alrajhibank.com.sa)  
E-mail: [contactcenter1@alrajhibank.com.sa](mailto:contactcenter1@alrajhibank.com.sa)



**Alawwal Bank**

Prince Abdulaziz bin Mosaad bin Jelwi Street  
P.O. Box 1476  
Riyadh 11431  
Kingdom of Saudi Arabia  
Tel: +966 11 401 0288  
Fax: +966 11 403 1104  
Website: www.alawwalbank.com  
E-mail: csc@alawwalbank.com

البنك الأول  
Alawwal bank

**Alinma Bank**

King Fahad Road  
P.O. Box 66674  
Riyadh 11586  
Kingdom of Saudi Arabia  
Tel: +966 11 218 5252  
Fax: +966 11 218 5255  
Website: www.alinma.com  
E-mail: info@alinma.com

مصرف الإنماء  
alinma bank

**Arab National Bank**

King Faisal Street  
P.O. Box 56921  
Riyadh 11564  
Kingdom of Saudi Arabia  
Tel: +966 11 402 9000  
Fax: +966 11 402 7747  
Website: www.anb.com.sa  
E-mail: info@anb.com.sa

**Bank Albilad**

King Abdullah Road  
P.O. Box 140  
Riyadh 11411  
Kingdom of Saudi Arabia  
Tel: +966 11 479 8888  
Fax: +966 11 479 8505  
Website: www.bankalbilad.com  
E-mail: customercare@bankalbilad.com

بنك البلاد  
Bank Albilad

**Bank Aljazira**

King Abdulaziz Road  
P.O. Box 6277  
Jeddah 21441  
Kingdom of Saudi Arabia  
Tel: +966 9 2000 6666  
Fax: +966 11 431 5803  
Website: www.baj.com.sa  
E-mail: info@baj.com.sa

بنك الجزيرة  
BANK ALJAZIRA

**Banque Saudi Fransi**

King Saud Road  
P.O. Box 56006  
Riyadh 11554  
Kingdom of Saudi Arabia  
Tel: +966 11 289 1136  
Fax: +966 11 403 7261  
Website: www.alfransi.com.sa  
E-mail: communications@alfransi.com.sa

**Gulf International Bank**

Eastern Ring Road  
P.O. Box 93413  
Riyadh 11673  
Kingdom of Saudi Arabia  
Tel: +966 11 510 3333  
Fax: +966 11 510 3394  
Website: www.gib.com  
E-mail: corporatecommunications@gib.com

**Riyad Bank**

Eastern Ring Road  
P.O. Box 22622  
Riyadh 11614  
Kingdom of Saudi Arabia  
Tel: +966 11 401 3030  
Fax: +966 11 403 0016  
Website: www.riyadbank.com  
E-mail: customercare@riyadbank.com

**Saudi Investment Bank**

Al-Maather Street  
P.O. Box 3533  
Riyadh 11481  
Kingdom of Saudi Arabia  
Tel: +966 11 874 3000  
Fax: +966 11 478 1557  
Website: www.saib.com.sa  
E-mail: info@saib.com.sa



The Receiving Entities will commence receiving Retail Subscription Forms at their branches throughout the Kingdom beginning on 20/3/1441H (corresponding to 17 November 2019G) until 1/4/1441H (corresponding to 28 November 2019G). Once the Retail Subscription Form is signed and submitted, the relevant Receiving Entity receiving it will stamp it and provide the Individual Investor with a copy of the completed Retail Subscription Form. In the event that the information provided in the Retail Subscription Form is incomplete or inaccurate, or not stamped by the Receiving Entity, the Retail Subscription Form will be considered void. The Individual Investors do not have the right to claim any compensation for the damages incurred due to such cancellation.

Each Individual Investor who subscribes to the Offer Shares must submit a Retail Subscription Form and must subscribe for Offer Shares in multiples of ten (with a minimum subscription of ten Offer Shares) at the highest price set forth in the Offer Price Range (the “**Retail Subscription Price**”). Each Individual Investor will be required to specify in the Retail Subscription Form the number of Offer Shares to which such Individual Investor is willing to subscribe at the Retail Subscription Price and whether, if the Final Offer Price is lower than the Retail Subscription Price, such person elects (1) to have any surplus subscription amount resulting from the difference between the Retail Subscription Price and the Final Offer Price refunded in cash by crediting the account of such Individual Investors or (2) to be considered for an allotment of additional Offer Shares. To the extent an Individual Investor elects to be considered for an allotment of additional Offer Shares, but such allotment is not made by the Company and the Selling Shareholder in their full discretion in consultation with the Joint Financial Advisors and the Joint Global Coordinators, the remaining surplus subscription amount will be

refunded in cash by crediting the account of such Individual Investors. Individual Investors must specify their choice in the Retail Subscription Form, including, in the case of fractional Shares, an amount with respect to such fractional Shares (i.e. if there are no additional Shares allocated, the remaining surplus subscription amount will be refunded by crediting the account of such Individual Investors).

Subscriptions by Individual Investors for less than ten Offer Shares will not be accepted. Increments are to be made in multiples of ten.

Retail Subscription Forms for Individual Investors should be submitted during the Retail Offering Period and accompanied (where applicable) with the following documents (the Receiving Entities will verify all copies against the originals and will return the originals to the relevant Individual Investor):

- (a) the original and copy of the Individual Investor's national civil identification card or residency identification card (in case of individuals, including GCC nationals, and non-Saudi Arabian national residents, as applicable);
- (b) the original and copy of the family civil identification card (when subscribing on behalf of family members);
- (c) the original and copy of a power of attorney (when subscribing on behalf of others);
- (d) the original and copy of certificate of guardianship (when subscribing on behalf of orphans);
- (e) the original and copy of the divorce certificate (when subscribing on behalf of the children of a divorced Saudi woman);
- (f) the original and copy of the death certificate (when subscribing on behalf of the children of a widowed Saudi woman); and
- (g) the original and copy of the birth certificate (when subscribing on behalf of the children of a divorced or widowed Saudi woman).

In the event an application is made on behalf of an Individual Investor (parents and children only), the name of the person signing on behalf of the Individual Investor should be stated in the Retail Subscription Form. The power of attorney must be notarised by a notary public for the Individual Investors residing in the Kingdom and must be legalised through a Saudi embassy or consulate in the relevant country for the Saudi Arabian Individual Investors residing outside the Kingdom. The concerned official of the Receiving Entity shall match the copy with the original version and return the original version to the Individual Investor.

One Retail Subscription Form should be completed for each primary Individual Investor applying for himself and members appearing on his family identification card if the family members apply for the same number of Offer Shares as the primary Individual Investor. In this case:

- (a) all Offer Shares allocated to the primary Individual Investor and dependent Individual Investors will be registered in the primary Individual Investor's name;
- (b) the primary Individual Investor will receive any refund in respect of amounts not allocated and paid for by himself or dependent Individual Investors; and
- (c) the primary Individual Investor will receive all dividends distributed in respect of the Offer Shares allocated to himself and dependent Individual Investors (in the event the Shares are not sold or transferred).

Separate Retail Subscription Forms must be used if:

- (a) the Offer Shares to be allocated are to be registered in a name other than the name of the primary Individual Investor;
- (b) dependent Individual Investors intend to apply for a different number of Offer Shares than the primary Individual Investor; and
- (c) the wife subscribes in her name adding allocated Offer Shares to her account (she must complete a separate Retail Subscription Form from the Retail Subscription Form completed by the relevant primary Individual Investor). In the latter case, applications made by the husbands on behalf of their spouses will be cancelled and the independent application of the wives will be processed by the Receiving Entity.

A Saudi female divorcee or widow who has minor children from a marriage to a non-Saudi husband can subscribe on behalf of those children provided she submits proof of motherhood. A subscription for Offer Shares made by a person in the name of his divorced wife shall be deemed invalid and the applicant shall be subject to the sanctions prescribed by law. If a primary Individual Investor subscribes for Shares for himself and other family members registered in his family book, and a family member submits a separate Retail Subscription Form, such family member's portion of the original application, and only his or her portion, will be cancelled.

During the Offering Period, only a valid Iqama will be an acceptable form of identification for non-Saudi dependents. Passports or birth certificates will not be accepted. Non-Saudi dependents can only be included as dependents with their mother and cannot subscribe as primary Individual Investors. The maximum age for non-Saudi dependents to be included with their mother is 18. Any documents issued by a foreign government must be legalised through a Saudi embassy or consulate in the relevant country.

Each Individual Investor agrees to subscribe for and purchase the number of Offer Shares specified in its Retail Subscription Form, multiplied by the Retail Subscription Price. Each Individual Investor shall acquire the number of Offer Shares allocated to him/her upon:

- (a) delivery by the Individual Investor of the Retail Subscription Form to any of the Receiving Entities;
- (b) payment in full by the Individual Investor to the Receiving Entity of the number of the Offer Shares subscribed for in the Retail Subscription Form multiplied by the Retail Subscription Price;
- (c) payment in full of the total value of the Offer Shares subscribed for at a branch of the Receiving Entities by authorising a debit of the Individual Investor's account held with the Receiving Entity to whom the Retail Subscription Form is being submitted; and
- (d) completion and announcement of the allocation of Offer Shares to the Institutional Subscriber and Individual Investor by the Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and the Joint Global Coordinators.

Transfer of ownership of the Offer Shares will be valid only from the time such transfer is recorded in the Company's share register and the Shares have commenced trading on the Exchange.

For clarity, Holders of Offer Shares will be entitled to receive any dividends declared by the Company from (and including) the date of the announcement of the final allocation of Offer Shares to Institutional Subscribers and Individual Investors as set forth in Table 4 (*Expected Offering Timeline*).

If a submitted Retail Subscription Form is not in compliance with the terms and conditions of the Offer, the Company shall have the right to reject, in full or in part, such an application. The Individual Investor shall accept any number of Offer Shares allocated to him/her unless the allocated shares exceed the number of Offer Shares he has applied for (as adjusted as described above if the Final Offer Price is less than the Retail Subscription Price).

#### **18.1.5 Allocation and Refunds**

The Lead Manager and the Receiving Entities shall open and operate escrow accounts named "Saudi Aramco IPO". The Lead Manager and each of the Receiving Entities shall deposit all amounts received from the Individual Investors into the escrow accounts mentioned above.

After the determination and announcement of the Final Offering Price, the Selling Shareholder and Saudi Aramco, in their full discretion and in consultation with the Joint Financial Advisors and Joint Global Coordinators will determine the allocation among investors. The Joint Bookrunners and Lead Manager will send notices to Individual Investors and Institutional Subscribers to inform them of the final number of Offer Shares allocated to each of them. Individual Investors will be notified of any refunds allocated to them. Allocation of Offer Shares will be determined at the full discretion of the Selling Shareholder and Saudi Aramco, in consultation with the Joint Financial Advisors and the Joint Global Coordinators.

With respect to Individual Investors, if the Final Offer Price is lower than the Retail Subscription Price, such Individual Investor must elect (1) to have any surplus subscription amount resulting from the difference between the Retail Subscription Price and the Final Offer Price refunded in cash by crediting the account of such Individual Investors or (2) to be considered for an allotment of additional Offer Shares. To the extent an Individual Investor elects to be considered for an allotment of additional Offer Shares, but such allotment is not made by the Company and the Selling Shareholder in their full discretion and in consultation with the Joint Financial Advisors and Joint Global Coordinators, the remaining surplus subscription amount will be refunded in cash by crediting the account of such Individual Investors. Excess subscription monies, if any, will be refunded to the Subscribers in whole without any deductions or fees and will be deposited in the Subscribers' accounts specified in the Retail Subscription Forms, including, in the case of fractional Shares, an amount with respect to such fractional Shares (i.e. if there are no additional Shares allocated, the remaining surplus subscription amount will be refunded by crediting the account of such Individual Investors).

The announcement of the Final Offer Price and final allocation and refunds process shall be made no later than 8/4/1441H (corresponding to 5 December 2019G) (for further details, see “*Key Dates and Subscription Procedures*” on page xxxii, and Section 18 (*Subscription Terms and Conditions*)). Individual Investors should communicate with the Lead Manager or the branch of the Receiving Entities where they submitted their Retail Subscription Form, as applicable, for any further information.

#### 18.1.6 *IPO Retail Incentive—Bonus Shares*

Each Eligible Retail Bonus Investor who continuously and uninterruptedly holds Offer Shares for the Bonus Holding Period will be entitled to receive one Bonus Share for every ten allocated Offer Shares so held, up to a maximum of 100 Bonus Shares. The Bonus Shares will be allocated from Shares owned by the Selling Shareholder.

The Exchange will transfer the Bonus Shares into the portfolio of all persons entitled thereto as soon as practicable (as determined by the Selling Shareholder in its absolute discretion), but in any event within 75 days after the end of the Bonus Holding Period. The date of transfer of such Bonus Shares, once determined by the Selling Shareholder, will be announced by the Company. No fractional Bonus Shares will be awarded and each Eligible Retail Bonus Investor is entitled to this incentive only once. Each of the Bonus Shares will be the same class and have all the same rights as the Offer Shares. No person will have any rights with respect to the Bonus Shares until the date such Bonus Shares are transferred into the portfolio of such person.

Any determination of whether a person is an Eligible Retail Bonus Investor and the number of Bonus Shares to which each Eligible Retail Bonus Investor is entitled will be determined by the Selling Shareholder in its full discretion.

The Securities Depository Center shall maintain a record of Eligible Retail Bonus Investors who are allocated Offer Shares and monitor their eligibility to receive Bonus Shares. Any Shares purchased subsequent to the allocation of Offer Shares to Individual Investors will not be considered eligible for a Bonus Share award. The Securities Depository Center will apply a last in-first out approach to monitoring transactions in the Shares in order to determine the number of Offer Shares in an Eligible Retail Bonus Investor’s portfolio that remain eligible for a Bonus Share award; *provided* that any transaction or series of transactions that results in the number of Shares in such Eligible Retail Bonus Investor’s portfolio being less than the number of Offer Shares allocated to such Eligible Retail Bonus Investor (whether or not held under the same investor number (“NIN”) or another NIN) will permanently reduce the number of Offer Shares on which the Bonus Share calculation will be made. Illustrations of the last in-first out approach are set forth below. In addition, if the Offer Shares are sold, transferred or otherwise disposed of from the Eligible Bonus Retail Investors’ portfolio account (either in full or in part) for any reason, even for part of the day, whether within the same NIN or to another NIN, then such transferred shares shall become ineligible for the award of Bonus Shares.

Illustrations of last in-first out methodology for the IPO Retail Incentive:

1. An Individual Investor is allocated 100 Offer Shares. During the Bonus Holding Period, the investor sold 100 shares and following that, bought 100 shares. What is the number of Shares eligible for the Bonus Shares award?

**Answer:** Zero, because the allocated Offer Shares were sold.

2. An Individual Investor is allocated 100 Offer Shares. During the Bonus Holding Period, the investor purchases 100 additional Shares and later sells 100 shares. What is the number of Shares eligible for the Bonus Shares award?

**Answer:** 100, because the allocated Offer Shares have remained in the account and the most recently purchased Shares are deemed to be the Shares that are sold.

3. An Individual Investor is allocated 100 Offer Shares. During the Bonus Holding Period, the investor purchases 10 additional Shares and later sells 50 Shares. What is the number of Shares eligible for the Bonus Shares award?

**Answer:** 60, because the most recently purchased Shares are deemed to be the first Shares that are sold, with the remaining 40 Shares that are sold reducing the number of originally allocated Offer Shares.



4. An Individual Investor is allocated 100 Offer Shares. During the Bonus Holding Period, the investor sells 50 Shares and later purchases 10 Shares. What is the number of Shares eligible for the Bonus Shares award?

**Answer:** 50, because the balance of Shares eligible for Bonus Shares is permanently reduced to a maximum of 50 upon the initial sale.

The information contained in this section is included by Saudi Aramco and its Advisors for inclusion in this Prospectus, and does not necessarily represent the views of the Exchange or any of its subsidiaries. Additionally, the Exchange and its subsidiaries are not liable for any decision or action taken by the Selling Shareholders, Saudi Aramco, any investor or any other party.

## 18.2 Pricing

### 18.2.1 *Final Offer Price*

The offer price at which all the Subscribers will purchase Offer Shares will be at the Final Offer Price.

The number of Offer Shares and Final Offer Price will be determined by Saudi Aramco, the Selling Shareholder, the Joint Global Coordinators and the Joint Bookrunners following the Book-Building Period.

Following the Book-Building Period, (1) Saudi Aramco, the Joint Financial Advisors and the Joint Global Coordinators will announce the aggregate amount of Offer Shares subscribed for relative to the number of Offer Shares sold in the Offering and (a) Saudi Aramco will publish an announcement in local and international media outlets, as well as on its website, setting out the Final Offer Price, the number of Offer Shares to be sold in the Offering and the percentage that the Offer Shares to be sold represent of the outstanding Shares.

### 18.2.2 *Book-building and Subscription by Institutional Subscribers*

The Joint Bookrunners shall, after approval by the CMA, offer the Offer Shares to Institutional Subscribers during the Book-Building Period. The Joint Financial Advisors will announce on their website, the dates of the Book-Building Period and the Offer Price Range, which will also be available on the Company's website. Subscription to Offer Shares during the Book-Building Period will be in accordance of the terms and conditions as made available by the Joint Bookrunners. The Institutional Subscribers will comply with the following book-building requirements:

- (a) Institutional Subscribers will subscribe to Offer Shares based on the Offer Price Range presented in this Prospectus;
- (b) each of the Institutional Subscribers must submit a non-binding order to purchase Offer Shares within the Offer Price Range via the Joint Bookrunners;
- (c) the Institutional Subscribers will fund their allocations of Offer Shares only after such allocations have been communicated to them by the Joint Bookrunners;
- (d) Institutional Subscribers located in the Kingdom will sign and submit the Institutional Investors Subscription Form to the Joint Bookrunners; and
- (e) Institutional Subscribers located outside the Kingdom may submit Bid Orders to participate in the book-building process, telephonically and electronically, to the Joint Bookrunners, without the need to fill and sign the Institutional Investors Subscription Form.

Transfer of ownership of the Offer Shares will be valid only from the time such transfer is recorded in the Company's share register and the Shares have commenced trading on the Exchange.

### 18.2.3 *Determination of the Final Offer Price*

Following the last day of the Book-Building Period, Selling Shareholder, Saudi Aramco, the Joint Global Coordinators and Joint Bookrunners will determine the Final Offer Price. After determination of the Final Offer Price, the Company, Joint Financial Advisors, Joint Global Coordinators and Joint Bookrunners will determine allocations to the investors, as described in greater detail above.

## 18.3 Stabilisation and Over-allotment

In connection with the Offering, the Stabilising Manager may effect transactions to stabilise the market price of the Shares to the extent permitted by the Stabilisation Instructions. Such transactions may be effected on the

Exchange and may be undertaken at any point during the Stabilising Period. However, the Stabilising Manager is under no obligation to undertake any stabilising transactions and such stabilisation, if commenced, may be discontinued at any time without prior notice. The Stabilising Manager will disclose any allocation of over-allotments and price stabilisation processes undertaken in connection with the Offering to the extent required by the Stabilisation Instructions.

In order to allow the Stabilising Manager to cover short positions resulting from any over-allotments, the Selling Shareholder will grant the Stabilising Manager the Over-allotment Option pursuant to which the Stabilising Manager may purchase the Over-allotment Shares at the Final Offer Price. The Over-allotment Option will be exercisable in whole or in part upon notice by the Stabilising Manager at its discretion at any time during the Stabilising Period. The Over-allotment Shares will be the same class and have all the same rights as the Offer Shares, including with respect to all dividends and other distributions, and will be traded on the Exchange on the same terms and conditions as the Offer Shares.

#### **18.4 Stock Lending Agreement**

The Stabilising Manager will enter into a stock lending agreement with the Selling Shareholder, pursuant to which the Stabilising Manager will be able to borrow from the Selling Shareholder, free of charge, up to Shares, for purposes of implementing price stabilisation. If the Stabilisation Manager borrows any Shares, it will be required to return equivalent securities or consideration to the Selling Shareholder following the end of the Stabilising Period. The Stock Lending Agreement may be independent or part of the Underwriting Agreement.

#### **18.5 Circumstances Where Listing may be Suspended or Cancelled**

##### **18.5.1 *Power to Suspend or Cancel Listing***

The CMA may suspend the trading or cancel the listing of the Shares at any time as it deems fit, in any of the following circumstances:

- (a) the CMA considers it necessary for the protection of investors or the maintenance of an orderly market;
- (b) Saudi Aramco fails, in a manner which the CMA considers material, to comply with the CML and its implementing regulations, including a failure to pay any fees or penalties due to the CMA on time;
- (c) Saudi Aramco fails to pay on time any fees due to the CMA or the Exchange or any fines due to the CMA;
- (d) the CMA considers that Saudi Aramco or its business is no longer suitable to warrant the continued listing of its securities on the Exchange;
- (e) upon the announcement of a reverse takeover containing insufficient information about the proposed transaction; *provided* if Saudi Aramco announces sufficient information regarding the target, and the CMA is satisfied, following Saudi Aramco's announcement, that there will be sufficient information available for the public about the proposed transaction of the reverse takeover, the CMA may decide not to suspend at this stage;
- (f) upon the leakage of information of the proposed transaction of the reverse takeover and Saudi Aramco is unable to assess accurately its financial position and unable to inform the Exchange accordingly;
- (g) if the liquidity requirements specified in paragraph (b) of Article 41 of the Listing Rules are not met after the lapse of the period established in subparagraph (1) of paragraph (d) of Article 42 of the Listing Rules;
- (h) upon an application for financial reorganisation of Saudi Aramco with a court in accordance with the Bankruptcy Law, if its losses exceed 50% of its share capital;
- (i) upon a court's termination of a financial reorganisation procedure and the commencement of a bankruptcy proceeding of Saudi Aramco in accordance with the Bankruptcy Law; and
- (j) upon a court's issuance of a final ruling to commence a bankruptcy proceeding of Saudi Aramco in accordance with the Bankruptcy law.

### 18.5.2 *Voluntary Cancellation of Listing*

- (a) An issuer whose securities have been admitted to listing may not cancel the listing of its securities on the Exchange without the prior approval of the CMA. In order to obtain such approval, Saudi Aramco will submit an application for cancellation, with concurrent notification to the Exchange, which must include the following:
- specific reasons for the request for the suspension or cancellation;
  - a copy of the disclosure described in paragraph (d);
  - a copy of the relevant documentation and a copy of each related communication to the shareholders if the cancellation is to take place as a result of a takeover or other corporate action by the issuer; and
  - names and contact information of the financial and legal advisors appointed in accordance with the relevant regulations.
- (b) The CMA may, in its full discretion, accept or reject the request for cancellation.
- (c) Saudi Aramco must obtain the consent of its Extraordinary General Assembly to cancel a listing only after the CMA has approved such cancellation.
- (d) Where a cancellation is made at Saudi Aramco's request, Saudi Aramco must make a disclosure to the public as soon as possible. This disclosure must include at least the reason for cancellation, the nature of the event resulting in the cancellation and the extent to which it affects Saudi Aramco's activities.

### 18.5.3 *Temporary Trading Suspension*

- (a) Saudi Aramco may request a temporary trading suspension from the Exchange upon the occurrence of an event that occurs during trading hours which requires immediate disclosure under the OSCO Rules and the Listing Rules, where the issuer cannot maintain the confidentiality of this information until the end of the trading period. The Exchange shall suspend the trading of the Shares immediately upon receipt of the request;
- (b) upon a temporary trading suspension made at the issuer's request, the issuer must announce as soon as possible the reason for the trading suspension, the anticipated period of the trading suspension and the event affecting the issuer's activities;
- (c) the CMA may impose a temporary trading suspension without a request from the issuer where the CMA becomes aware of information or circumstances affecting the issuer's activities which the CMA considers would be likely to interrupt the operation of the Exchange or the protection of investors. An issuer whose securities are subject to temporary trading suspension must continue to comply with the CML and its implementing regulations;
- (d) a temporary trading suspension will be lifted following the elapse of the period referred to in the announcement specified in the third paragraph above, unless the CMA decides otherwise; and
- (e) the Exchange may propose to the CMA to exercise its powers in accordance with paragraph (c) above if it is found to have information or circumstances that may affect Saudi Aramco's activities and potentially affect the Exchange activity or protect investors.

### 18.5.4 *Lifting of Suspension*

Where a listing has been suspended, the lifting of such suspension will depend on:

- (a) the events which led to the suspension being sufficiently remedied, and the suspension being no longer necessary for the protection of investors;
- (b) the lifting of the suspension is likely not to affect the normal activity of the Exchange; and
- (c) Saudi Aramco complying with any other conditions that the CMA deems necessary.

### 18.5.5 *Re-registering and Listing of Cancelled Securities*

If Saudi Aramco wishes to re-list its Shares after a cancellation, it must submit a new application for the listing of its Shares in accordance with the Listing Rules and comply with the applicable requirements under the OSCO Rules.

## 18.6 Approvals and Decisions Under Which the Offer Shares are Offered

The following are the decisions and approvals under which the Offer Shares are publicly offered:

- (a) the Selling Shareholder's approval of the sale of the Offer Shares;
- (b) the Company's Board of Directors decision recommending the Offering; and
- (c) the CMA's announcement regarding its approval of the Offering.

## 18.7 Lock-up Period

Pursuant to the OSCO Rules, the Substantial Shareholder (who is also the Selling Shareholder) will be prohibited from disposing of its Shares for the Statutory Lock-up Period. As an exception, and pursuant to the waiver set out in Section 17 (*Waivers*), the Selling Shareholder may sell its Shares to the following: (1) any foreign government (or its government-related entities as defined in the QFI Rules) or (2) any Foreign Strategic Investor affiliated with a foreign government. The Selling Shareholder undertakes to publicly announce any disposition of Shares made pursuant to the exceptions set forth in clauses (1) or (2) above promptly after such disposition during the Statutory Lock-up Period.

The Listing Rules will prohibit the Company from listing additional Shares for a period of six months after the commencement of trading of the Shares on the Exchange (which is equivalent to the Statutory Lock-up Period).

In addition to the aforementioned, the Selling Shareholder and the Company have agreed to the following:

- (a) Pursuant to the Underwriting Agreement, the Selling Shareholder will not sell any of its Shares during the twelve-month period following the initial date of the public listing of Shares on the Exchange ("**Contractual Lock-Up Period**"), except to (1) any foreign government (or its government-related entities as defined in the QFI Rules) or (2) any Foreign Strategic Investor affiliated with a foreign government. The agreement with the procuring entity shall include that it is subject to the remainder of the Contractual Lock-Up Period as specified in this Prospectus and as provided for in the Underwriting Agreement, as well as any restrictions or prohibitions imposed by applicable rules and regulations and any other restrictions agreed with the procuring entity.
- (b) Pursuant to the Coordination Agreement, the Company will not issue new Shares during the Contractual Lock-Up Period.

The restrictions set forth in clause (a) above do not apply to the transfer of Bonus Shares by the Selling Shareholder to Eligible Retail Bonus Investors after the expiration of the Statutory Lock-Up Period, as described in this Prospectus.

The restrictions set forth in clauses (a) and (b) above will not apply during the Contractual Lock-up Period (after the expiry of the Statutory Lock-up Period) (i) to the actions of the Selling Shareholder in relation to its Shares if one-third (or more) of the Joint Global Coordinators (or their affiliates) that are party to the Underwriting Agreement agree to the actions of the Selling Shareholder (pursuant to the Underwriting Agreement) or (ii) to the Company's issuance of new Shares during the Contractual Lock-Up Period if one-third (or more) of the Joint Global Coordinators agree to such issuance (pursuant to the Coordination Agreement).

For further information, see Section 15.4 (*Contractual Lock-Up Period*).

## 18.8 Acknowledgments by Individual Investors

By completing and delivering the Retail Subscription Form, each such Individual Investor:

- (a) in relation to Individual Investors only, agrees to subscribe to the number of Offer Shares specified in the Retail Subscription Form;
- (b) warrants that he/she has read this Prospectus and understood all its content;
- (c) accepts the Bylaws and all Offering instructions and terms mentioned in this Prospectus and the Retail Subscription Form, and subscribes in the Offer Shares accordingly;
- (d) declares that neither he/she nor any of his/her family members included in the Retail Subscription Form have previously subscribed for any Shares and that the Company has the right to reject any or all duplicate applications;

- (e) accepts the number of Offer Shares allocated to him/her as per the Retail Subscription Form; and
- (f) agrees not to cancel or amend the Retail Subscription Form after submitting it to the Receiving Entity.

#### **18.9 Acknowledgments by Institutional Subscribers Located Inside the Kingdom**

By completing and delivering the Bid Form, each such Institutional Subscriber:

- (a) agrees to subscribe to the number of Offer Shares specified in the Bid Form;
- (b) warrants that it has read this Prospectus and understood all its content;
- (c) accepts the Bylaws and all Offering instructions and terms mentioned in this Prospectus;
- (d) accepts the number of Offer Shares allocated to him/her as per the Institutional Investors Subscription Form; and
- (e) acknowledges that it has fulfilled all the requirements and conditions relating to the Book-Building Instructions, all other applicable requirements provided for in the CML and its implementing regulations and that all documents and information submitted by it as part of the book-building process are true, complete, up to date, and not misleading and further acknowledges that it shall bear full legal responsibility in the event that it is proved otherwise (and the CMA and other relevant government entities have the right to undertake adequate measures in this regard).

#### **18.10 Shares' Record and Trading Arrangements**

Tadawul shall keep a shareholder's record containing their names, nationalities, the Shares held by them and the amounts paid for these Shares.

#### **18.11 Saudi Stock Exchange**

In 1990G, full electronic trading of equities in the Kingdom was introduced. Tadawul was founded in 2001G as the successor to the Electronic Securities Information System. Trading in shares occurs on the "Tadawul" system through a fully integrated trading system covering the entire trading process from execution of the trade transaction through settlement thereof. Trading occurs on each Business Day of the week between 10:00 am and 3:00 pm from Sunday to Thursday, during which orders are executed. However, orders can be entered, amended or cancelled from 9:30 am to 10:00 am. These times change during the month of Ramadan as announced by Tadawul management. Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. In general, market orders (orders placed at best price) are executed first, followed by limit orders (orders place at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry. Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website and Tadawul Information Link, which supplies trading data in real time to the information providers such as Reuters. Exchange transactions are settled on a T+2 basis, meaning that a transfer of shares settles two business days after the trade transaction is executed.

Issuers are required to disclose all material information that is important for investors via Tadawul. Surveillance and monitoring is the responsibility of Tadawul as the operator of the market to ensure fair trading and an orderly market.

#### **18.12 Trading of Shares**

Trading of the Shares is expected to commence after all relevant legal requirements and procedures have been completed. An announcement of the commencement of trading of the Shares will be made on Tadawul's website ([www.tadawul.com.sa](http://www.tadawul.com.sa)). Dates and times included in this Prospectus are only indicative and may be changed or extended subject to the approval of the CMA. Following Listing, Saudi Arabian nationals, non-Saudi Arabian nationals resident in the Kingdom who own an investment account with an Authorised Person, and companies, banks, and investment funds established in the Kingdom or in countries of the GCC, as well as GCC nationals, will be permitted to trade in the Shares once they are listed on the Exchange. Moreover, Qualified Foreign Investors will be permitted to trade in the Shares in accordance with QFI Rules. Non-Saudi nationals living outside the Kingdom and institutions registered outside the Kingdom, excluding QFIs and Foreign Strategic Investors, will also have the right to invest indirectly to acquire economic benefits in the Shares by entering into swap agreements with Authorised Persons to acquire, hold and trade in the Shares on the Exchange on behalf of a foreign non-GCC investor. Authorised Persons shall be deemed the legal owners of the Shares under the swap agreements.

Furthermore, Shares can only be traded after allocated Offer Shares have been credited to Subscribers' accounts at Tadawul, the Company has been registered and its Shares listed on the Exchange. Pre-trading in Shares is strictly prohibited and Subscribers entering into any pre-trading activities will be acting at their own risk. The Company and the Selling Shareholder shall have no legal responsibility in connection with pre-trading activities.

### 18.13 Miscellaneous

The Retail Subscription Form and all related terms, conditions, provisions, covenants and undertakings shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; *provided* that neither the Retail Subscription Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned and delegated by any of the parties to the subscription without the prior written consent of the other party.

These instructions, the conditions and the receipt of any Retail Subscription Forms or related contracts shall be governed, construed and enforced in accordance with the laws of the Kingdom.

This Prospectus has been released in both Arabic and English languages. In the event of a discrepancy between the English and the Arabic text, the Arabic text of the Prospectus shall prevail.

The Company, the Selling Shareholder, the Joint Financial Advisors, the Joint Global Coordinators, the Joint Bookrunners, the Lead Manager and the Underwriters require recipients of this Prospectus to inform themselves of any regulatory restrictions on the Offer Shares and to observe all such restrictions. The distribution of this Prospectus or the sale of Offer Shares to any person in any country other than the Kingdom is expressly prohibited, except as described herein; *provided* that all applicable laws and regulations are observed.

In connection with the Offering of the Offer Shares, each of the Joint Global Coordinators, the Joint Financial Advisors, the Joint Bookrunners and the Lead Manager and any of their respective affiliates, may take up a portion of the Offer Shares in the Offering as a principal position and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to Offer Shares being "offered" or "placed" should be read as including any offering or placement of Offer Shares to any of the Joint Global Coordinators, the Joint Financial Advisors, the Joint Bookrunners and the Lead Manager or any of their respective affiliates acting in such capacity. In addition certain of the Joint Global Coordinators, the Joint Financial Advisors, the Joint Bookrunners and the Lead Manager or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Joint Global Coordinators, Joint Financial Advisors, Joint Bookrunners and Lead Manager (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. None of the Joint Global Coordinators, the Joint Financial Advisors, the Joint Bookrunners and the Lead Manager intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In the event that the Underwriters purchase any Shares as a result of a settlement failure, they may agree to coordinate their approach to the sale of such Shares after closing of the Offering.

## 19. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at Dhahran Techno Valley—KFUPM, Innovation Cluster Building, Room 1127, First Floor, Dhahran 34464, Kingdom of Saudi Arabia, between 8:00 am and 4:00 pm from 13/3/1441H (corresponding to 10 November 2019G) until 7/4/1441H (corresponding to 4 December 2019G) for a period of no less than 24 calendar days prior to the end of the Offering Period:

- (a) CMA announcement of the approval of the Offering;
- (b) Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to 19 December 2017G) pursuant to which Saudi Aramco became a joint stock company;
- (c) Saudi Aramco's certificate of commercial registration No. 2052101150 dated 11/7/1439H (corresponding to 28 March 2018G) issued by the Ministry of Commerce and Investment;
- (d) the Company's Bylaws;
- (e) the 2017G Financial Statements, the 2018G Financial Statements and the 2019G Six Month Interim Period Financial Statements;
- (f) all other reports, letters, documents or statements by any expert any part of which is extracted or referred to in this Prospectus; and
- (g) letters of consent from each of:
  - (i) the Joint Financial Advisors, Joint Global Coordinators, Joint Bookrunners and the Underwriters for the inclusion of its name and logo in this Prospectus;
  - (ii) the Auditor (PricewaterhouseCoopers Public Accountants), for the inclusion of its name and logo in this Prospectus, along with the audit reports on the 2017G Financial Statements and 2018G Financial Statements and for the review report on the 2019G Six Month Interim Period Financial Statements;
  - (iii) the SABIC Auditor (Ernst & Young & Co. (Certified Public Accountants)) for the inclusion of its name, logo and publications, if any, in this Prospectus;
  - (iv) the Financial Due Diligence Advisor (Ernst & Young & Co. (Certified Public Accountants)), for the inclusion of its name, logo and publications, if any, in this Prospectus;
  - (v) the Industry Consultant (IHS Markit Ltd.), for the inclusion of its name, logo and publications, in this Prospectus;
  - (vi) the Legal Advisor (The Law Office of Megren M. Al-Shaalan), for the inclusion of its name and logo in this Prospectus; and
  - (vii) Independent Petroleum Consultant (DeGolyer & MacNaughton), for the inclusion of its name and logo in this Prospectus.

## **20. FINANCIAL STATEMENTS, SABIC FINANCIAL STATEMENTS AND AUDITOR AND SABIC AUDITOR REPORTS**

The 2017G Financial Statements and the 2018G Financial Statements have been prepared in accordance with IFRS. The 2017G Financial Statements and the 2018G Financial Statements have been audited by the Auditor as stated in its audit reports with respect thereto included elsewhere in this Prospectus. The 2019G Six Month Interim Period Financial Statements have been prepared in accordance with IAS 34.

The 2018G SABIC Financial Statements have been prepared in accordance with IFRS and have been audited by SABIC's independent auditor, Ernst & Young & Co. (Certified Public Accountants) as stated in its audit report included elsewhere in this Prospectus. The 2019G SABIC Six Month Interim Financial Statements have been prepared in accordance with IAS 34.



## INDEX TO FINANCIAL STATEMENTS

### **Consolidated Financial Statements of the Company for the year ended 31 December 2018**

Independent Auditor's Report .....	F-3
Consolidated Statement of Income .....	F-11
Consolidated Statement of Comprehensive Income .....	F-12
Consolidated Balance Sheet .....	F-13
Consolidated Statement of Changes in Equity .....	F-14
Consolidated Statement of Cash Flows .....	F-15
Notes to the Consolidated Financial Statements .....	F-16

### **Consolidated Financial Statements of the Company for the year ended 31 December 2017**

Independent Auditor's Report .....	F-79
Consolidated Statement of Income .....	F-84
Consolidated Statement of Comprehensive Income .....	F-85
Consolidated Balance Sheet .....	F-86
Consolidated Statement of Changes in Equity .....	F-87
Consolidated Statement of Cash Flows .....	F-88
Notes to the Consolidated Financial Statements .....	F-89

### **Condensed Consolidated Interim Financial Report of the Company for the three-month and six-month periods ended 30 June 2019 (unaudited)**

Report on Review of the Condensed Consolidated Interim Financial Report .....	F-147
Consolidated Statement of Income .....	F-148
Consolidated Statement of Comprehensive Income .....	F-149
Consolidated Balance Sheet .....	F-150
Consolidated Statement of Changes in Equity .....	F-151
Consolidated Statement of Cash Flows .....	F-152
Notes to the Consolidated Financial Statements .....	F-153

### **Consolidated Financial Statements of SABIC for the year ended 31 December 2018**

Independent Auditor's Report .....	F-169
Consolidated Statement of Financial Position .....	F-174
Consolidated Statement of Income .....	F-175
Consolidated Statement of Comprehensive Income .....	F-176
Consolidated Statement of Changes in Equity .....	F-177
Consolidated Statement of Cash Flows .....	F-178
Notes to the Consolidated Statements .....	F-179

### **Interim Condensed Consolidated Financial Statements of SABIC for the three-month and six-month periods ended 30 June 2019**

Independent Auditor's Review Report .....	F-259
Consolidated Statement of Financial Position .....	F-260
Consolidated Statement of Income .....	F-261
Consolidated Statement of Comprehensive Income .....	F-262
Consolidated Statement of Changes in Equity .....	F-263
Consolidated Statement of Cash Flows .....	F-264
Notes to the Consolidated Statements .....	F-265

# **SAUDI ARABIAN OIL COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**



## *Independent auditor's report to the shareholder of Saudi Arabian Oil Company*

### **Report on the audit of the consolidated financial statements**

#### ***Our opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Saudi Arabian Oil Company (the "Company") and its subsidiaries (together "Saudi Aramco" or the "Group") as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### **What we have audited**

Saudi Aramco's consolidated financial statements comprise:

- the consolidated statement of income for the year ended December 31, 2018;
- the consolidated statement of comprehensive income for the year ended December 31, 2018;
- the consolidated balance sheet as at December 31, 2018;
- the consolidated statement of changes in equity for the year ended December 31, 2018;
- the consolidated statement of cash flows for the year ended December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISAs"), that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

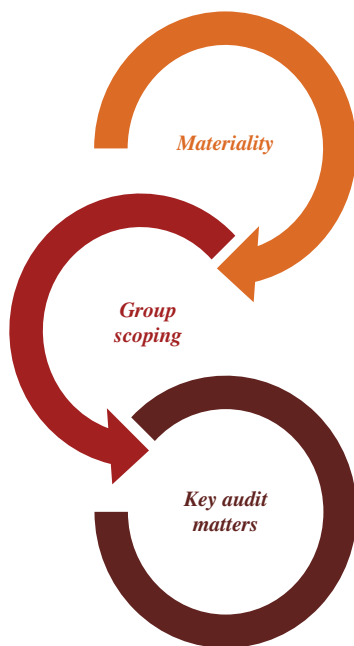
We are independent of Saudi Aramco in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.



## *Our audit approach*

### **Overview**

We set out below an overview of our audit, focusing on the determination of materiality, how we scoped our Group audit and the key audit matters arising during the audit.



- We determined overall materiality taking into account the nature of Saudi Aramco as a profit oriented group. Based on income before income taxes of SAR 798 billion, we determined our overall materiality at SAR 37.5 billion.
- Our quantitative threshold for reporting misstatements to the Audit Committee was set at SAR 2.8 billion.
- We considered the Company's standalone operations and three other components located in the Kingdom of Saudi Arabia, the United States of America and the Republic of Korea, as key within Saudi Aramco based on their size, complexity and risk.
- We also performed specified procedures on selected financial statement line items for several other components.
- Taken together, these gave us significant audit evidence in relation to the consolidated financial statements.

Our key audit matters comprise the following:

- Changes to the fiscal regime in the Kingdom of Saudi Arabia;
- Valuation of property, plant and equipment and equity accounted investments; and
- Implementation of new accounting standards impacting the consolidated financial statements.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### **Materiality**

The scope of our audit was influenced by the application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<b><i>Overall Group materiality</i></b>	SAR 37.5 billion
<b><i>How we determined it</i></b>	Approximately 5% of income before income taxes
<b><i>Rationale for the materiality benchmark applied</i></b>	Income before income taxes is an important benchmark for Saudi Aramco's stakeholders as Saudi Aramco is a profit oriented group and this is a generally accepted benchmark for such groups

We informed the Audit Committee that we would report to them misstatements identified during our audit above SAR 2.8 billion, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### **How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account how Saudi Aramco is organised, the accounting processes and controls, and the industry in which Saudi Aramco operates.

Saudi Aramco's operations are conducted through many components in several parts of the world. The most significant component within the Group is the Company itself and the majority of the audit effort was spent by the Group engagement team based on a full time basis in Dhahran, Kingdom of Saudi Arabia. The Group engagement team tested IT general controls, application and manual controls of systems and processes related to financial information generated by the Company in the Kingdom of Saudi Arabia, supplemented by data analytics and other tests of detail. Certain audit work was carried out centrally by the Group engagement team assisted by our IFRS, valuations, pensions, tax and IT experts and specialists. The Group engagement team also coordinated the Group audit across different locations and performed audit procedures on the consolidation.

We identified three further significant components, located in the Kingdom of Saudi Arabia, the United States of America and the Republic of Korea, where a full scope audit was performed under our instructions on the respective components' financial information, used for the consolidation. Members of the Group engagement team performed the full scope audit of the significant component located in the Kingdom of Saudi Arabia. Component teams in the United States of America and the Republic of Korea performed IT and controls work at those respective locations to support their audits. We also requested teams to perform specified procedures on several other components. This was based on qualitative and quantitative considerations, including whether the component accounted for a significant proportion of individual consolidated financial statement line items or represented business combinations made during the year. These components were located in the Kingdom of Saudi Arabia, Guernsey, Bermuda, Malaysia and the Netherlands.

The Group engagement team's involvement on the audit work performed by component teams outside of the Kingdom of Saudi Arabia took into account the relative significance and complexity of the individual component. This included allocating overall materiality to the different components, sending formal instructions to the component teams, leading conference calls with the component teams throughout their audits/specified procedures and review of work papers of selected component teams.

This approach to our Group audit scoping resulted in sufficient audit coverage over the consolidated financial statements.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

### How our audit addressed the key audit matter

#### ***Changes to the fiscal regime in the Kingdom of Saudi Arabia***

As part of ongoing fiscal regime changes and reforms, the Company's natural gas investment activities are subjected to a 20% tax rate from January 1, 2018. The Company's non-gas activities are taxed at 50%.

We obtained the Royal Decree No. M/70 dated March 28, 2018 that sets out the lower income tax rate applicable to the Company's natural gas investment activities. We assessed the reasonableness of the methodology that was adopted by management for the segregation of the Company's tax base between gas and non-gas activities as well as the basis for transfer prices between the two sets of taxable activities.

In segregating the Company's operations between gas and non-gas activities, management made estimates and assumptions including allocation of common infrastructure and establishing transfer prices between the two sets of taxable activities.

The income tax calculations for 2018 were tested by us with the assistance of our tax specialists. We also tested the mathematical accuracy and evaluated the accounting treatment of deferred tax balances by reference to the new income tax rate for the natural gas investment activities.

Further, the Kingdom of Saudi Arabia introduced Value Added Tax ("VAT") effective January 1, 2018. Management considered the implications and determined the treatment of relevant transactions. New accounting processes and controls were established and system changes were made to facilitate accounting and compliance requirements.

As regards to the new VAT law, we obtained an understanding of its implications for Saudi Aramco and in particular, the treatment of significant transactions. We were assisted by our IT specialists in testing the configuration of systems that handle VAT accounting. We performed procedures to test that appropriate VAT rates were applied to different classes of transactions. We also inspected the monthly VAT returns and tested the reconciliation of the VAT returns to the underlying accounting records.

We considered this as a key audit matter as these significant changes in the current year impacted the nature, timing and extent of our audit procedures. Refer to Note 8 to the consolidated financial statements for further information.

We assessed the reasonableness of disclosures made in the consolidated financial statements in this regard.

#### ***Valuation of property, plant and equipment and equity accounted investments***

A formal process takes place at the end of each reporting period to identify internal or external factors that may indicate that the carrying amount of items of property, plant and equipment and equity accounted investments may not be recoverable. This assessment covers all of Saudi Aramco's property, plant and equipment and equity accounted investments.

We obtained an understanding of the process followed by management to identify impairment triggers. We assessed the reasonableness of management's process of identification of impairment triggers with reference to our understanding of internal and external factors affecting the business.



#### **Key audit matter**

The identification of impairment triggers involves the exercise of judgement. When triggers are identified, management calculates the recoverable amounts of such assets using valuation techniques and compares these with their carrying amounts.

In addition, valuation methods are also used to initially measure net identifiable assets acquired in business combinations as part of a Purchase Price Allocation.

The determination of (i) the recoverable amounts of property, plant and equipment and equity accounted investments; and (ii) the fair value of net identifiable assets acquired in business combinations, are inherently complex. This entails estimates based on significant judgements and assumptions concerning the future. Such calculations also involve critical assumptions relating to discount rates and financial forecasts.

We considered this to be a key audit matter given the judgement involved in identifying impairment triggers and the complexity and assumptions involved in valuation models.

*Refer to Note 2(d), Note 2(h) and Note 31 to the consolidated financial statements for further information.*

#### **Implementation of new accounting standards impacting the consolidated financial statements**

The consolidated financial statements include the impact of new IFRS that are effective on or after January 1, 2018.

The adoption of IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, did not result in material changes to the consolidated financial statements. However, these required particular attention by management in their implementation. For example, there were system and process changes to consider performance obligations and provisional prices for IFRS 15. IFRS 9 requires key management judgement in respect of the classification of financial assets depending on Saudi Aramco's business model and the introduction of a new impairment model, among other changes.

With respect to the IFRS 16 disclosures that relate to the potential implementation impact on the consolidated financial statements, management conducted an extensive exercise to identify and assess all of Saudi Aramco's significant lease arrangements. This was inherently complex given the large number of arrangements involved as well as the complexity of lease terms. Judgement and assumptions with respect to

#### **How our audit addressed the key audit matter**

In conjunction with our valuation experts, we performed the following audit procedures on the valuation models, as appropriate:

- We tested the mathematical accuracy and logical integrity of the valuation models;
- We agreed financial information used to the approved business plans of the underlying components;
- We compared price and other assumptions used to industry benchmarks and performed sensitivity analyses of these assumptions; and
- The reasonableness of discount rates was evaluated by cross-checking against market based discount rates derived under the capital asset pricing model ("CAPM") framework, using observable market data and assumptions for the individual CAPM parameters.

We also assessed the appropriateness of the accounting policies and disclosures made in the consolidated financial statements.

We gained an understanding of management's implementation plan for these accounting standards. We also evaluated the design and implementation of management's processes to adopt these new IFRS.

Amongst other tests of controls and tests of details, we performed the following:

- For IFRS 9, we assessed the classification of financial assets by reference to management's business model and the reasonableness of impairment losses on financial assets;
- For IFRS 15, we selected a sample of contracts with customers based on revenue transactions during the year to assess management's identification of performance obligations. We also tested the mathematical accuracy and logical integrity of the calculations that determined the impact of provisional prices on revenue; and
- For IFRS 16, we assessed the completeness of significant lease arrangements identified by management. We selected a large sample of lease contracts to test the appropriateness of key



#### **Key audit matter**

identifying lease arrangement and valuing the lease liability and the related right-of-use asset for disclosure purposes in the consolidated financial statements, were also required. Particularly, the determination of an appropriate discount rate involved estimation. Assumptions were also made regarding the duration of lease arrangements with renewal options, amongst other considerations. In addition, management implemented system changes and set up new processes and controls to handle the new method of lease accounting going forward.

We considered this as a key audit matter as these accounting standards required management to exercise judgement and make estimates covering a large number of arrangements. This also resulted in changes to internal processes, systems and controls that impacted the nature, timing and extent of our audit procedures.

*Refer to Note 2(c) and Note 21 to the consolidated financial statements for further information.*

#### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements**

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Bylaws, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **How our audit addressed the key audit matter**

judgements made by management such as the treatment of renewal options included in certain leases. We also assessed the reasonableness of the discount rate used. With the assistance of our IT specialists, we understood and tested management's system used to calculate the lease liability and the related right-of-use asset.

In conjunction with our IFRS experts, we also assessed the reasonableness and adequacy of the accounting policies and disclosures made in the consolidated financial statements with respect to these new accounting standards.





Those charged with governance are responsible for overseeing Saudi Aramco's financial reporting process.

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

As part of an audit in accordance with ISAs, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the



key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**PricewaterhouseCoopers**

Bader I. Benmohareb

License No. 471

A handwritten signature in blue ink, appearing to be "Bader I. Benmohareb", written over a faint horizontal line.

March 14, 2019

**Saudi Arabian Oil Company**  
**Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**CONSOLIDATED STATEMENT OF INCOME**

	Note	SAR		USD*	
		Year ended December 31		Year ended December 31	
		2018	2017	2018	2017
Revenue .....	21	<b>1,182,137</b>	840,483	<b>315,236</b>	224,129
Other income related to sales .....		<b>152,641</b>	150,176	<b>40,704</b>	40,047
<b>Revenue and other income related to sales .....</b>		<b>1,334,778</b>	990,659	<b>355,940</b>	264,176
Production royalties and excise and other taxes .....		<b>(208,505)</b>	(140,893)	<b>(55,601)</b>	(37,572)
Purchases .....	27	<b>(188,937)</b>	(126,093)	<b>(50,383)</b>	(33,625)
Producing and manufacturing .....		<b>(56,202)</b>	(56,962)	<b>(14,987)</b>	(15,190)
Selling, administrative and general .....		<b>(31,250)</b>	(30,994)	<b>(8,333)</b>	(8,265)
Exploration .....		<b>(7,928)</b>	(13,725)	<b>(2,114)</b>	(3,660)
Research and development .....		<b>(2,217)</b>	(1,902)	<b>(591)</b>	(507)
Depreciation and amortization .....	5,6	<b>(41,334)</b>	(37,175)	<b>(11,023)</b>	(9,913)
<b>Operating costs .....</b>		<b>(536,373)</b>	(407,744)	<b>(143,032)</b>	(108,732)
<b>Operating income .....</b>		<b>798,405</b>	582,915	<b>212,908</b>	155,444
Share of results of joint ventures and associates .....	7	<b>(1,415)</b>	(956)	<b>(377)</b>	(255)
Finance and other income .....	22	<b>3,865</b>	1,569	<b>1,030</b>	418
Finance costs .....	17	<b>(2,959)</b>	(2,090)	<b>(789)</b>	(557)
<b>Income before income taxes .....</b>		<b>797,896</b>	581,438	<b>212,772</b>	155,050
<b>Income taxes .....</b>	8	<b>(381,378)</b>	(296,819)	<b>(101,701)</b>	(79,152)
<b>Net income .....</b>		<b>416,518</b>	284,619	<b>111,071</b>	75,898
<b>Net income attributable to</b>					
Shareholder's equity .....		<b>416,196</b>	283,198	<b>110,985</b>	75,519
Non-controlling interests .....		<b>322</b>	1,421	<b>86</b>	379
		<b>416,518</b>	284,619	<b>111,071</b>	75,898

\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.



**Khalid A. Al-Falih**  
Chairman of the Board



**Amin H. Nasser**  
President & Chief Executive Officer



**Khalid H. Al-Dabbagh**  
Senior Vice President, Finance,  
Strategy & Development

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**Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	SAR		USD*	
		Year ended December 31		Year ended December 31	
		2018	2017	2018	2017
<b>Net income</b> .....		<b>416,518</b>	284,619	<b>111,071</b>	75,898
<b>Other comprehensive income (loss), net of tax</b> .....	16				
<b>Items that will not be reclassified to net income</b>					
Change in post-employment benefit deferred tax asset due to new income tax rates .....		(119)	(15,475)	(32)	(4,127)
Remeasurement of post-employment benefit obligations .....		6,920	3,761	1,845	1,003
Share of post-employment benefit obligations remeasurement from joint ventures and associates .....		—	3	—	1
Changes in fair value of equity investments classified as fair value through other comprehensive income .....		(811)	—	(216)	—
<b>Items that may be reclassified subsequently to net income</b>					
Cash flow hedges and other .....		36	(169)	10	(45)
Changes in fair value of debt securities classified as fair value through other comprehensive income .....		(762)	—	(203)	—
Change in deferred tax liability on investments in securities due to new income tax rate .....		—	1,921	—	512
Fair value adjustments of available-for-sale financial assets .....		—	1,147	—	306
Share of other comprehensive income of joint ventures and associates .....		(283)	456	(76)	122
Currency translation differences .....		(1,110)	3,333	(296)	889
		<u>3,871</u>	<u>(5,023)</u>	<u>1,032</u>	<u>(1,339)</u>
<b>Total comprehensive income</b> .....		<b>420,389</b>	279,596	<b>112,103</b>	74,559
<b>Total comprehensive income attributable to</b>					
Shareholder's equity .....		420,524	277,017	112,139	73,871
Non-controlling interests .....		(135)	2,579	(36)	688
		<u>420,389</u>	<u>279,596</u>	<u>112,103</u>	<u>74,559</u>

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**Consolidated Financial Statements**  
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**CONSOLIDATED BALANCE SHEET**

	Note	SAR		USD*	
		At December 31		At December 31	
		2018	2017	2018	2017
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	873,827	751,134	233,021	200,302
Intangible assets	6	26,896	24,346	7,172	6,492
Investments in joint ventures and associates	7	22,579	27,273	6,021	7,273
Deferred income tax assets	8	9,866	13,606	2,631	3,628
Other assets and receivables	9	13,127	14,119	3,501	3,765
Investments in securities	10	17,214	18,872	4,590	5,033
		<u>963,509</u>	<u>849,350</u>	<u>256,936</u>	<u>226,493</u>
<b>Current assets</b>					
Inventories	11	43,580	34,013	11,621	9,070
Trade receivables	12	93,818	86,892	25,018	23,171
Due from the Government	13	48,140	38,991	12,837	10,398
Other assets and receivables	9	13,775	5,881	3,673	1,568
Short-term investments	14	194	6,184	52	1,649
Cash and cash equivalents	15	183,152	81,242	48,841	21,665
		<u>382,659</u>	<u>253,203</u>	<u>102,042</u>	<u>67,521</u>
<b>Total assets</b>		<b>1,346,168</b>	<b>1,102,553</b>	<b>358,978</b>	<b>294,014</b>
<b>Equity and liabilities</b>					
<b>Shareholder's equity</b>					
Share capital	1	60,000	—	16,000	—
Stated capital	1	—	60,000	—	16,000
Additional paid-in capital		26,981	26,981	7,195	7,195
Retained earnings:					
Unappropriated		920,625	715,107	245,500	190,695
Appropriated		6,000	6,000	1,600	1,600
Other reserves	16	3,176	5,670	847	1,512
		<u>1,016,782</u>	<u>813,758</u>	<u>271,142</u>	<u>217,002</u>
<b>Non-controlling interests</b>		<b>11,653</b>	<b>12,556</b>	<b>3,107</b>	<b>3,348</b>
		<u>1,028,435</u>	<u>826,314</u>	<u>274,249</u>	<u>220,350</u>
<b>Non-current liabilities</b>					
Borrowings	17	71,329	68,692	19,021	18,318
Deferred income tax liabilities	8	23,877	6,309	6,367	1,682
Post-employment benefit obligations	18	23,209	38,191	6,189	10,184
Provisions	19	15,606	13,997	4,162	3,733
		<u>134,021</u>	<u>127,189</u>	<u>35,739</u>	<u>33,917</u>
<b>Current liabilities</b>					
Trade and other payables	20	72,286	62,055	19,276	16,548
Obligations to the Government:					
Income taxes	8	69,575	57,679	18,553	15,381
Royalties		11,862	20,410	3,164	5,443
Borrowings	17	29,989	8,906	7,997	2,375
		<u>183,712</u>	<u>149,050</u>	<u>48,990</u>	<u>39,747</u>
		<u>317,733</u>	<u>276,239</u>	<u>84,729</u>	<u>73,664</u>
<b>Total equity and liabilities</b>		<b>1,346,168</b>	<b>1,102,553</b>	<b>358,978</b>	<b>294,014</b>

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**Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	SAR							USD*	
	Shareholder's equity							Total	Total
	Share capital	Stated capital	Additional paid-in capital	Retained earnings		Other reserves	Non-controlling interests		
			Unappropriated	Appropriated <sup>(1)</sup>	(Note 16)				
<b>Balance at January 1,</b>									
<b>2017</b> .....	—	60,000	26,981	631,481	6,000	128	10,756	735,346	196,092
Net income .....	—	—	—	283,198	—	—	1,421	284,619	75,898
Other comprehensive (loss) income .....	—	—	—	—	—	(6,181)	1,158	(5,023)	(1,339)
Total comprehensive income (loss) .....	—	—	—	283,198	—	(6,181)	2,579	279,596	74,559
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	(11,723)	—	11,723	—	—	—
Distributions .....	—	—	—	(187,849)	—	—	—	(187,849)	(50,093)
Acquisition of subsidiary .....	—	—	—	—	—	—	94	94	25
Change in control of affiliate .....	—	—	—	—	—	—	218	218	58
Dividends paid to non-controlling interests .....	—	—	—	—	—	—	(1,091)	(1,091)	(291)
<b>Balance at December 31,</b>									
<b>2017</b> .....	—	<b>60,000</b>	<b>26,981</b>	<b>715,107</b>	<b>6,000</b>	<b>5,670</b>	<b>12,556</b>	<b>826,314</b>	<b>220,350</b>
Net income .....	—	—	—	<b>416,196</b>	—	—	<b>322</b>	<b>416,518</b>	<b>111,071</b>
Other comprehensive income (loss) .....	—	—	—	—	—	<b>4,328</b>	<b>(457)</b>	<b>3,871</b>	<b>1,032</b>
Total comprehensive income (loss) .....	—	—	—	<b>416,196</b>	—	<b>4,328</b>	<b>(135)</b>	<b>420,389</b>	<b>112,103</b>
Conversion to joint stock company (Note 1) .....	<b>60,000</b>	<b>(60,000)</b>	—	—	—	—	—	—	—
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	<b>6,822</b>	—	<b>(6,822)</b>	—	—	—
Dividends .....	—	—	—	<b>(217,500)</b>	—	—	—	<b>(217,500)</b>	<b>(58,000)</b>
Change in control of an affiliate .....	—	—	—	—	—	—	<b>134</b>	<b>134</b>	<b>36</b>
Dividends paid to non-controlling interests .....	—	—	—	—	—	—	<b>(902)</b>	<b>(902)</b>	<b>(240)</b>
<b>Balance at December 31,</b>									
<b>2018</b> .....	<b>60,000</b>	—	<b>26,981</b>	<b>920,625</b>	<b>6,000</b>	<b>3,176</b>	<b>11,653</b>	<b>1,028,435</b>	<b>274,249</b>

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(1) Appropriated retained earnings represent a legal reserve as established under the 1988 Articles of the Saudi Arabian Oil Company which is not available for distribution (Note 1).



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**Consolidated Financial Statements**  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	SAR		USD*	
		Year ended December 31		Year ended December 31	
		2018	2017	2018	2017
<b>Income before income taxes</b>		<b>797,896</b>	<b>581,438</b>	<b>212,772</b>	<b>155,050</b>
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities</b>					
Depreciation and amortization	5,6	41,334	37,175	11,023	9,913
Provisions		107	(91)	28	(24)
Exploration and evaluation costs written off		2,951	8,522	787	2,272
Net gain on disposal of property, plant and equipment		—	(464)	—	(124)
Share of results of joint ventures and associates	7	1,415	956	377	255
Finance income	22	(2,840)	(1,217)	(757)	(324)
Finance costs	17	2,959	2,090	789	557
Dividends from investments in securities		(143)	(141)	(38)	(38)
(Gain)/loss on remeasurement of investments in affiliates	31	(870)	262	(232)	70
Change in fair value of investments through profit or loss		(594)	(38)	(158)	(10)
Change in joint ventures and associates inventory profit elimination		103	(530)	27	(141)
Other		1,417	156	377	42
<b>Change in working capital</b>					
Inventories		(6,455)	(7,524)	(1,721)	(2,006)
Trade receivables		(5,696)	(17,874)	(1,519)	(4,766)
Due from the Government		(9,149)	(38,991)	(2,439)	(10,398)
Other assets and receivables		(7,335)	(517)	(1,956)	(138)
Trade and other payables		5,343	(1,140)	1,425	(304)
Royalties payable		(8,548)	10,544	(2,279)	2,811
<b>Other changes</b>					
Other assets and receivables		(1,117)	(3,204)	(298)	(854)
Provisions		(347)	(1,597)	(93)	(426)
Post-employment benefit obligations		(2,606)	(1,140)	(695)	(304)
Settlement of income and other taxes	23(a)	(354,124)	(233,068)	(94,433)	(62,151)
<b>Net cash provided by operating activities</b>		<b>453,701</b>	<b>333,607</b>	<b>120,987</b>	<b>88,962</b>
<b>Capital expenditures</b>		<b>(131,766)</b>	<b>(121,955)</b>	<b>(35,138)</b>	<b>(32,521)</b>
Acquisition of affiliates, net of cash acquired		(8,571)	(1,152)	(2,285)	(307)
Distributions from joint ventures and associates		1,073	840	286	224
Additional investments in joint ventures and associates		(401)	(3,546)	(106)	(946)
Dividends from investments in securities		143	141	38	38
Interest received		2,942	1,167	784	311
Net investments in securities		(615)	(476)	(164)	(127)
Net maturities of short-term investments		5,990	6,352	1,597	1,694
<b>Net cash used in investing activities</b>		<b>(131,205)</b>	<b>(118,629)</b>	<b>(34,988)</b>	<b>(31,634)</b>
Dividends	29	(217,500)	—	(58,000)	—
Distributions to the Government	23(a), 29	—	(187,849)	—	(50,093)
Dividends paid to non-controlling interests		(902)	(1,091)	(240)	(291)
Interest paid		(2,748)	(1,795)	(733)	(479)
Proceeds from borrowings		11,660	20,245	3,109	5,399
Repayments of borrowings		(11,096)	(11,321)	(2,959)	(3,019)
<b>Net cash used in financing activities</b>		<b>(220,586)</b>	<b>(181,811)</b>	<b>(58,823)</b>	<b>(48,483)</b>
<b>Net increase in cash and cash equivalents</b>		<b>101,910</b>	<b>33,167</b>	<b>27,176</b>	<b>8,845</b>
Cash and cash equivalents at beginning of the year		81,242	48,075	21,665	12,820
<b>Cash and cash equivalents at end of the year</b>		<b>183,152</b>	<b>81,242</b>	<b>48,841</b>	<b>21,665</b>

\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.



**Khalid A. Al-Falih**  
Chairman of the Board



**Amin H. Nasser**  
President & Chief Executive Officer



**Khalid H. Al-Dabbagh**  
Senior Vice President, Finance,  
Strategy & Development

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**1. General information**

The Saudi Arabian Oil Company (the “Company”), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the “Kingdom”), is engaged in the exploration, production, transportation and sale of crude oil and natural gas (“Upstream”) and the manufacture, transportation and sale of petroleum products (“Downstream”). The Company was formed on November 13, 1988 by Royal Decree No. M/8; which approved the Company’s original Articles; however, its history dates back to May 29, 1933 when the Kingdom granted a concession to the Company’s predecessor the right to, among other things, explore the Kingdom for hydrocarbons.

Effective January 1, 2018, Council of Minister’s Resolution No. 180, dated 1/4/1439H (December 19, 2017) converted the Company to a Saudi Joint Stock Company with new Bylaws. The Company’s 1988 Articles were cancelled as of January 1, 2018 pursuant to Royal Decree No. M/36, dated 2/4/1439H (December 20, 2017). The Company’s share capital, previously stated capital, has been set at Saudi Riyal (“SAR”) 60,000, is fully paid and is divided into 200 billion ordinary shares with equal voting rights without par value. The Company’s Commercial Registration Number is 2052101150.

On December 20, 2017, Royal Decree No. M/37 dated 2/4/1439H was issued approving the Hydrocarbons Law which applies to the Kingdom’s hydrocarbons and hydrocarbon operations. The Hydrocarbons Law came into effect on December 22, 2017 upon publication in the Official Gazette. Under the Hydrocarbons Law, all hydrocarbon deposits, hydrocarbons and hydrocarbon resources are the property of the Kingdom until ownership is transferred at the well head or when extracted. Further, the Hydrocarbons Law codified the Kingdom’s sole authority to set the maximum amount of hydrocarbons production by the Company and the maximum sustainable capacity that the Company must maintain.

All natural resources within the Kingdom, including hydrocarbons, are owned by the Kingdom. Through a concession in 1933, the Saudi Arabian Government (the “Government”) granted the Company the exclusive right to explore, develop and produce the Kingdom’s hydrocarbon resources, except in certain areas. As of December 24, 2017, the Company’s original concession agreement was replaced and superseded by an amended concession agreement (the “Concession Agreement”) which provides the Company the exclusive right to explore, drill, prospect, appraise, develop, extract, recover, and produce hydrocarbons in the concession area. The Company is also provided the exclusive right to market and distribute hydrocarbons, petroleum products and liquid petroleum gas in the Kingdom along with the non-exclusive right to manufacture, refine, and treat production and to market, sell, transport and export such production.

The initial term of the Concession Agreement is for 40 years which shall be extended by the Government for 20 years unless the Company did not satisfy certain conditions commensurate with its current operating practices. In addition, the Concession Agreement may be amended and extended for an additional 40 years beyond the original 60-year period subject to the Company and the Government agreeing on the terms of such extension.

The consolidated financial statements of the Company and its subsidiaries (together “Saudi Aramco”) were approved by the Board of Directors on March 14, 2019.

**2. Summary of significant accounting policies, judgments and estimates**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The consolidated financial statements provide comparative information in respect of the previous period.

**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), that are endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board (“IASB”). Amounts and balances relating to Shari’a compliant financial



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

instruments of the Company, its subsidiaries and investments are disclosed separately. All other relevant amounts and balances relate to conventional financial instruments.

The consolidated financial statements have been prepared under the historical cost convention except for certain items measured at fair value which are, primarily, investments in securities, derivatives and certain trade receivables. The accounting policies that follow have been consistently applied to all years presented, unless otherwise stated.

**(b) Significant accounting judgments and estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to exercise judgment in the process of applying Saudi Aramco's accounting policies and in the use of certain critical accounting estimates and assumptions concerning the future. Management has made various judgments that may significantly impact the valuation and presentation of assets and liabilities. In addition, judgment is also applied when undertaking the estimation procedures that are necessary to calculate assets, liabilities, revenue and expenses. Accounting estimates, by definition, may not equal the related actual results and are subject to change based on experience and new information. The areas requiring the most significant judgments, estimates and assumptions in the preparation of the consolidated financial statements are: accounting for interest in subsidiaries, joint arrangements and associates, recoverability of asset carrying amounts, taxation, provisions, post-retirement obligations and determination of functional currency and are set out in the individual accounting policies below.

**(c) New or amended standards**

- (i) Saudi Aramco adopted for the first time the following IASB pronouncements that are endorsed in the Kingdom, which are effective for annual periods beginning on or after January 1, 2018:

**1) IFRS 9, Financial Instruments**

IFRS 9 as issued by the IASB, replaces IAS 39, Financial Instruments: Recognition and Measurement, that relates to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. In accordance with the transition provisions in IFRS 9, comparative figures have not been restated. There was no material impact on opening retained earnings at January 1, 2018 as a result of the adoption of IFRS 9. The following changes were made to the disclosures and classifications of financial assets:

- Investments in debt securities and certain equity securities with a fair value of SAR 14,086 at January 1, 2018, which were classified as available-for-sale under IAS 39, are now classified as fair value through other comprehensive income ("FVOCI"). For debt securities, Saudi Aramco's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments in debt securities were solely principal and interest. Fair value gains and losses on investments in debt securities will be subsequently reclassified to net income on derecognition. Investments in certain equity securities are not held for trading, instead they are held for medium to long term strategic purposes. For these investments, Saudi Aramco has made an irrevocable election to present subsequent changes in fair values in other comprehensive income. Fair value gains and losses on these investments in equity securities will not be subsequently reclassified to net income on derecognition.
- Equity investments in mutual funds of SAR 4,208 at January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss ("FVPL"). These investments do not meet the criteria to be classified at FVOCI in accordance with IFRS 9. There was no material impact of this change on the opening retained earnings at January 1, 2018.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

- Except for certain trade receivables subsequently measured at FVPL, all other financial assets meet the criteria for amortized cost measurement under IFRS 9 and accordingly there is no change in respect of classification and measurement of these other financial assets.

Further, the new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under IAS 39. For trade receivables, Saudi Aramco applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of receivables. Debt securities at FVOCI and other financial assets are considered low risk and thus the impairment provision is determined as 12-month expected credit losses. Based on assessments undertaken by Saudi Aramco, there is no material increase in the loss allowance.

## 2) IFRS 15, Revenue from Contracts with Customers

IFRS 15 as issued by the IASB replaces IAS 18, Revenue, and establishes a five-step model to account for revenue arising from contracts with customers. Saudi Aramco has adopted IFRS 15 in accordance with the transition provisions in IFRS 15 and the new rules have been adopted retrospectively. Other than the changes to certain line items on the Consolidated Statement of Income and changes to the revenue disclosure (Note 21), adoption of IFRS 15 did not have any impact on the prior periods.

Under IFRS 15, revenue from sales of crude oil and related products is recognized upon the satisfaction of performance obligations which occurs when control transfers to the customer. Control of the products is determined to be transferred to the customer when the title of crude oil and related products passes to the customer which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue contracts for crude and certain related products provide for provisional pricing at the time of shipment with the final pricing based on an average market price for a particular future period. As a result of adopting IFRS 15, the difference between the estimate and the final price is recorded separately as a change in fair value of the related receivable and is disclosed as a separate component of revenue (Note 21).

There are no other standards, amendments and interpretations that had any material impact on the consolidated financial statements.

- (ii) The following IASB pronouncement that is endorsed in the Kingdom will become effective for future financial reporting periods and has not been early adopted by Saudi Aramco:

### **IFRS 16, Leases**

IFRS 16, Leases, which was released by the IASB in January 2016, provides a new model for lease accounting in which all leases, other than short-term and small value leases, will be accounted for by the lessee, by the recognition on the Consolidated Balance Sheet of a right-of-use asset and a lease liability, and the subsequent amortization of the right-of-use asset over the lease term. IFRS 16 will supersede IAS 17, Leases, IFRIC 4, Determining whether an Arrangement Contains a Lease, SIC 15, Operating Leases – Incentives and SIC – 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Saudi Aramco will apply IFRS 16 from its mandatory adoption date of January 1, 2019.

At December 31, 2018, Saudi Aramco has non-cancellable operating lease commitments of SAR 35,565 (Note 24). Of these commitments, approximately SAR 1,894 relate to short-term leases and SAR 134 to low value leases and other items which will be recognized on a straight-line basis as expense in the Consolidated Statement of Income. For the remaining lease commitments, Saudi Aramco expects to recognize right-of-use assets and lease liabilities of approximately SAR 27,389

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

(after adjustments for prepayments and accrued lease payments recognized at December 31, 2018) in its Consolidated Balance Sheet at January 1, 2019. There will be no significant impact on the net assets at January 1, 2019, and net current assets will be SAR 5,992 lower due to the presentation of a portion of the liability as a current liability.

Saudi Aramco's activities as a lessor are not material and hence Saudi Aramco does not expect any significant impact on its consolidated financial statements. However, some additional disclosures will be required from next year.

Saudi Aramco will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards, amendments and interpretations that are not yet effective that are expected to have a material impact in the current or future reporting periods or on foreseeable future transactions.

**(d) Principles of consolidation and equity accounting**

**(i) Subsidiaries**

The consolidated financial statements reflect the assets, liabilities and operations of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany balances and transactions, including unrealized profits and losses arising from intragroup transactions, have been eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies with those used by the Company.

The acquisition method of accounting is used to account for business combinations. The cost of the acquisition of a subsidiary is measured as the fair value of the assets given and liabilities incurred or assumed at the date of the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date the assets and liabilities are exchanged, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the acquired share of the identifiable net assets is recorded as goodwill. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to Saudi Aramco. Acquisition related costs are expensed as incurred.

Saudi Aramco recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statements of Income and Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Balance Sheet, respectively.

If the business combination is achieved in stages, the acquisition date carrying value of the previously held equity interest is re-measured to fair value at the acquisition date with any gains or losses arising from such remeasurement recognized in net income.

**(ii) Joint arrangements**

Under IFRS 11, Joint Arrangements, an arrangement in which two or more parties have joint control, is a joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Saudi Aramco has both joint operations and joint ventures.

**1) Joint operations**

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of a joint arrangement. In relation to its interests in joint operations, Saudi Aramco recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

**2) Joint ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Saudi Aramco's share of results of its joint ventures is recognized within net income, while its share of post-acquisition movements in other comprehensive income is recognized within other comprehensive income. The cumulative effect of these changes is adjusted against the carrying amount of Saudi Aramco's investments in joint ventures, which is presented separately in the Consolidated Balance Sheet. When Saudi Aramco's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured non-current receivables, Saudi Aramco does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Gains and losses on transactions between Saudi Aramco and joint ventures not realized through a sale to a third party are eliminated to the extent of Saudi Aramco's interest in the joint ventures. Where necessary, adjustments are made to the financial statements of joint ventures to align their accounting policies with those used by Saudi Aramco.

Saudi Aramco's investments in joint ventures includes, when applicable, goodwill identified on acquisition, net of any accumulated impairment loss. Goodwill represents the excess of the cost of an acquisition over the fair value of Saudi Aramco's share of the net identifiable assets of the acquired joint venture at the date of acquisition. Dilution gains and losses arising from investments in joint ventures are recognized in net income.

Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

**(iii) Associates**

Associates are entities over which Saudi Aramco has significant influence. Significant influence is the power to participate in financial and operating policy decisions but with no control or joint control over those policies and is generally reflected by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The accounting policies for joint ventures detailed in Note 2(d)(ii)(2) above are also applied by Saudi Aramco to its associates.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

*Significant accounting judgments and estimates*

Judgments are applied in the determination of whether control, joint control or significant influence is present with respect to investments in subsidiaries, joint arrangements or associates, respectively. For control, judgement is applied when determining if an entity is controlled by voting rights, potential voting rights or other rights granted through contractual arrangements and includes considering an entity's purpose and design. For joint control, judgement is applied when assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties by taking decisions about relevant activities through unanimous consent of the parties sharing control. For joint control, judgement is also applied as to whether the joint arrangement is classified as a joint venture or joint operation taking into account specific facts and circumstances, such as the purpose and design of the arrangement, including with respect to its output, its relationship to the parties and its source of cash flows. For significant influence, judgement is applied in its determination by assessing factors such as representation on the board of directors, participation in policy-making processes, material transactions with the entity, interchange of managerial personnel and provision of essential technical information. Refer to Notes 7, 33, and 34.

**(e) Intangible assets**

Intangible assets other than exploration and evaluation costs (see Note 2(f) below) consist primarily of brands and trademarks, franchise/customer relationships, computer software and patents and intellectual property. If acquired in a business combination, these intangible assets are recognized at their fair value at the date of acquisition and, if acquired separately, these intangible assets are recognized at cost. All of these intangible assets are subsequently amortized on a straight-line basis over their estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of these intangible assets:

Brands and trademarks . . . . .	10 to 15
Franchise/customer relationships . . . . .	5 to 10
Computer software . . . . .	3 to 5
Patents and intellectual property . . . . .	15

Amortization is recorded in depreciation and amortization in the Consolidated Statement of Income.

**(f) Exploration and evaluation**

Exploration and evaluation costs are recorded under the successful efforts method. Under the successful efforts method, geological and geophysical costs are recognized as an expense when incurred and exploration costs associated with exploratory wells are initially capitalized on the Company's Consolidated Balance Sheet as an intangible asset until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found these costs continue to be capitalized subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found, and no alternative use of the well is determined, the previously capitalized costs are evaluated for derecognition or tested for impairment.

Exploratory wells remain capitalized while additional appraisal drilling on the potential oil and/or gas field is performed or while optimum development plans are established. All such capitalized costs are not subject to amortization, but at each reporting date are subject to regular technical and management review to confirm the continued intent to develop, or otherwise extract value from the well. Where such intent no longer exists, the costs are immediately written off to net income. Capitalized exploratory expenditures are not subject to amortization but, at each reporting date, are subject to review for impairment indicators.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalized costs are transferred to property, plant and equipment.

**(g) Property, plant and equipment**

Property, plant and equipment is stated on the Company's Consolidated Balance Sheet at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the construction and/or acquisition of the asset. Land and construction-in-progress are not depreciated. When a construction-in-progress asset is deemed ready for use as intended by management, depreciation commences.

Subsequent expenditures including major renovations are included in an asset's carrying amount, or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to Saudi Aramco and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repair and maintenance expenditures are expensed as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met (Note 2(s)).

Where the life of expected hydrocarbon reserves substantially exceeds the economic or technical lives of the underlying assets, the straight-line method of depreciation is used on a field by field basis. The unit of production method is used for fields where the expected reserve life is approximately equal to or less than the estimated useful lives of the underlying assets. Depletion rates are calculated on the basis of a group of wells or fields with similar characteristics based on proved developed reserves. The estimation of expected reserve lives reflects management's assessment of proved developed reserves and the related depletion strategy on a field by field basis. Depreciation expense on all other assets is calculated using the straight-line method to allocate the cost less residual values over the estimated useful lives. Depreciation expense is recorded in the Consolidated Statement of Income.

Depreciation expense is calculated after determining an estimate of an asset's expected useful life and the expected residual value at the end of its useful life. The useful lives and residual values are determined by management at the time the asset is initially recognized and reviewed annually for appropriateness or when events or conditions occur that impact capitalized costs, hydrocarbon reserves or estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets:

<b>Crude oil facilities:</b>	
Pipelines and storage tanks . . . . .	12 to 23
Drilling and construction equipment . . . . .	5 to 25
Oil and gas properties . . . . .	15 to 30
Marine equipment . . . . .	13 to 30
<b>Refinery and petrochemical facilities . . . . .</b>	<b>5 to 40</b>
<b>Gas &amp; NGL facilities . . . . .</b>	<b>2 to 30</b>
<b>General service plant:</b>	
Permanent buildings . . . . .	20 to 40
Roads and walkways . . . . .	10 to 20
Aircraft . . . . .	8 to 17
Autos and trucks . . . . .	3 to 20
Office furniture and equipment . . . . .	6 to 8
Computer equipment . . . . .	3 to 5

Net gains and losses on disposals of depreciable assets are recognized in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(h) Impairment of non-financial assets**

Saudi Aramco assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either, post-tax discounted cash flow models or available data from binding arm's length sales transactions for similar assets, or observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a post-tax risk adjusted discounted cash flow model. The use of post-tax discount rates in determining value in use does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

Impairment losses are recognized as a component of net income. If, in a subsequent period, the amount of a non-goodwill impairment loss decreases, a reversal of the previously recognized impairment loss is recognized in net income.

*Significant accounting judgments and estimates*

Impairment tests are undertaken on the basis of the smallest identifiable group of assets (cash generating unit), or individual assets, for which there are largely independent cash inflows. The key assumptions used to determine the different cash generating units involves significant judgment from management.

For the purposes of determining whether impairment of oil, gas and refining assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating future cash flows for its VIU calculations are forecasted future oil and gas prices, expected production volumes, future operating and development costs, refining margins and changes to the discount rate used for the discounted cash flow model. There is an inherent uncertainty over forecasted information and assumptions. Changes in these assumptions and forecasts could impact the recoverable amounts of assets and any calculated impairment and reversals thereof.

**(i) Leases**

Agreements under which Saudi Aramco makes payments to third parties in return for the right to use an asset for a period of time are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership to Saudi Aramco are recorded at commencement as finance leases. Such leases are capitalized on the Consolidated Balance Sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The interest element of leases is recorded in net income using the effective interest method over the term of the lease. Contingent rentals are recognized as an expense in the periods in which they are incurred. All other leases are recorded as operating leases and the associated costs are recorded in net income on a straight-line basis over the period of the lease.

Where Saudi Aramco is the lessor in a finance lease, the present value of the lease payments is recognized as a receivable. The interest element of the lease receivable is recognized in net income using the effective interest method.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(j) Investments and other financial assets**

**(i) Classification**

Consequent to the adoption of IFRS 9 from January 1, 2018 management determines the classification of its financial assets based on the business model for managing the financial assets and the contractual terms of the cash flows. Saudi Aramco's financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

For financial assets measured at fair value, gains and losses will either be recorded in net income or other comprehensive income. For investments in debt securities, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether Saudi Aramco has made an irrevocable election at the time of initial recognition, due to the strategic nature of these investments, to account for such equity investments at fair value through other comprehensive income. Saudi Aramco reclassifies debt securities when and only when its business model for managing those assets changes. Certain revenue contracts provide for provisional pricing at the time of shipment with the final pricing based on an average market price for a particular future period. Such trade receivables are measured at fair value because the contractual cash flows are not solely payment of principal and interest. All other trade receivables meet the criteria for amortized cost measurement under IFRS 9.

**(ii) Recognition and derecognition**

Regular purchases and sales of financial assets are recognized on the trade-date, which is the date on which Saudi Aramco commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Saudi Aramco has transferred substantially all the risks and rewards of ownership.

**(iii) Measurement**

At initial recognition, Saudi Aramco measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed as a component of net income. Saudi Aramco subsequently measures all equity investments at fair value.

**Equity investments:**

Where Saudi Aramco has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to net income following the derecognition of the investment. Dividends from such investments continue to be recognized as a component of net income when Saudi Aramco's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized as a component of net income.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**Debt securities:**

Subsequent measurement of debt securities depends on Saudi Aramco's business model for managing the asset and the cash flow characteristics of the asset. Debt securities are classified into the following three measurement categories:

**1. Amortized cost:**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost using the effective interest method. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized as a component of net income when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

**2. Fair value through other comprehensive income ("FVOCI"):**

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses which are recognized as a component of net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to net income. Interest income from these financial assets is included in finance income using the effective interest rate method.

**3. Fair value through profit or loss ("FVPL"):**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized as a component of net income in the period in which it arises. Financial assets at FVPL are included in non-current assets unless management intends to dispose of the asset within 12 months from the end of the reporting period, in which case, the asset is included in current assets.

**Other financial assets:**

Other financial assets are classified into the following categories:

**1. Amortized cost:**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a financial asset that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized as a component of net income when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate.

Financial assets at amortized cost comprise cash and cash equivalents, short-term investments, other assets and receivables, due from the Government and trade receivables other than those subsequently measured at fair value through profit or loss.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**2. Fair value through profit or loss:**

Trade receivables related to contracts with provisional pricing arrangements are subsequently measured at FVPL.

**(iv) Impairment**

Saudi Aramco assesses on a forward looking basis the expected credit losses associated with debt securities carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, Saudi Aramco applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

**(v) Accounting Policies applied until December 31, 2017**

In accordance with the transition provisions in IFRS 9, comparative figures have not been restated. As a result, the comparative information provided continues to be accounted for in accordance with Saudi Aramco's previous accounting policy.

**1. Financial assets**

Management determined the classification of its financial assets based on the purpose for which the financial assets are initially acquired. At the end of each reporting period, Saudi Aramco assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Regular purchases and sales of financial assets are recognized on the trade-date which is the date Saudi Aramco commits to purchase or sell the asset.

**2. Classification of financial assets:**

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading or, upon initial recognition, are designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term if held for trading or for a longer term if initially designated at fair value through profit or loss. Transaction costs are expensed as incurred as a component of net income. Financial assets at fair value through profit or loss are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using, primarily, discounted cash flow valuation techniques. Changes in the fair value of financial assets at fair value through profit or loss are recognized as a component of net income.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets, less provision for impairment, if any. Such provisions are recognized as a component of net income.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Impairment of loans and receivables is established when there is objective evidence that Saudi Aramco will not be able to collect all amounts due according to the original terms. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables comprise cash and cash equivalents, short-term investments, trade receivables, due from the Government and certain other assets and receivables.

**(iii) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using discounted cash flow valuation techniques. Changes in the fair value of available-for-sale financial assets are recognized through other comprehensive income. Dividends and interest income are recognized within finance and other income.

A significant or prolonged decline in the fair value of an equity security classified as an available-for-sale financial asset below its cost is considered as an indicator that the security is impaired. Impairment losses recognized in net income related to equity securities are not reversed.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized through other comprehensive income are included as a component of net income.

**(k) Derivative instruments and hedging activities**

Saudi Aramco's use of derivative instruments does not have a material effect on its financial position or results of operations.

**(i) Derivative instruments classified as held for trading**

Saudi Aramco uses commodity swap derivative financial instruments to manage exposure to price fluctuations which arise on purchase and sale transactions for physical deliveries of various refined products. The swaps are initially recognized, and subsequently re-measured at fair value and recorded as an asset, when the fair value is positive, or liability, when the fair value is negative, under trade receivables or trade and other payables in the Consolidated Balance Sheet, respectively.

The fair value of the swap is determined in accordance with Saudi Aramco's derivative valuation policy by reference to the traded price of that instrument on the relevant exchange or over-the-counter markets at the Consolidated Balance Sheet date. The gain or loss from the changes in the fair value of the swap from its value at inception is recognized in net income.

**(ii) Derivative instruments designated as hedges**

Saudi Aramco uses interest rate swaps and currency forward contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments,

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

designated as either fair value or cash flow hedges, are purchased from counter parties of high credit standing and are initially recognized, and subsequently remeasured, at fair value.

At the inception of the hedging transaction, Saudi Aramco documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction. An assessment is also documented of whether the derivative financial instrument used in a hedging transaction is highly effective in offsetting changes in fair value or cash flows of the hedged item, both at the inception of the hedge and on an ongoing basis.

The fair value of a derivative financial instrument used for hedging purposes is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months; otherwise, it is classified as a non-current asset or liability.

**1) Fair value hedges**

A fair value hedge is a hedge of the fair value of a recognized asset or liability or firm commitment and comprises currency forward contracts. The gain or loss from the changes in the fair value of the currency forward contracts is recognized in net income, together with changes in the fair value of the hedged item.

**2) Cash flow hedges**

A cash flow hedge is a hedge of a particular risk associated with an asset or liability or a highly probable forecast transaction. Any gain or loss relating to the effective portion of changes in the fair value of interest rate swap contracts is recognized in other comprehensive income, with the ineffective portion recognized immediately in net income.

Gains and losses deferred through other comprehensive income are reclassified to net income at the time the hedged item affects net income. However, when a hedged item is a forecast transaction resulting in the recognition of a non-financial asset or non-financial liability, the gains and losses deferred through other comprehensive income, if any, are included in the initial cost or other carrying amount of the asset or liability.

When a hedging instrument expires, any cumulative gain or loss deferred through other comprehensive income will remain until the forecast transaction is recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred through other comprehensive income is immediately reclassified to net income.

**(I) Income tax**

Income tax expense for the period comprises current and deferred tax expense. Income tax expense is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income. In this case, the related income tax is also recognized in other comprehensive income.

Current income tax expense is calculated primarily on the basis of the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law"). In addition, income tax expense results from taxable income generated by foreign subsidiaries.

Deferred income tax is provided in full, using the liability method at tax rates enacted or substantively enacted at the end of the reporting period and expected to apply when the related deferred income tax is realized or settled on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In estimating such tax consequences, consideration is given to expected future events. Deferred income tax is not provided on initial recognition of an asset or liability in a transaction, other than a business combination that, at the time of the transaction, does not affect either the accounting profit or the taxable profit.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Deferred income tax assets are recognized where future recovery is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax is not provided for taxes on possible future distributions of retained earnings of subsidiaries where the timing of the distribution can be controlled and it is probable that the retained earnings will be substantially reinvested by the entities.

*Significant accounting judgments and estimates*

Saudi Aramco establishes provisions, based on reasonable estimates, for potential claims by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as different interpretations of tax regulations by the taxable entity and the responsible tax authority and the outcome of previous negotiations. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in net income in the period in which the change occurs. Deferred income tax assets are recognized only to the extent it is considered probable that those assets are recoverable. This includes an assessment of when those assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the assets when they do reverse. This requires assumptions regarding future profitability. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred income tax assets as well as in the amounts recognized in net income in the period in which the change occurs.

Detailed taxation information, including current expense and deferred income tax assets and liabilities, is presented in Note 8.

**(m) Inventories**

Inventories are stated at the lower of cost or estimated net realizable value. Cost comprises all expenses to bring the inventory to their present location and condition and, for hydrocarbon inventories, is determined using the first-in, first-out (“FIFO”) method. For materials and supplies inventories, cost is determined using the weighted average method less an allowance for disposal of obsolete and/or surplus materials and supplies. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**(n) Due from the Government**

The Government compensates the Company through price equalization (Note 2(w)) and for the past due trade receivables of specified Government and semi-Government customers to whom the Company supplies specified products and services.

Revenue on sales to these specified Government and semi-Government customers is recognized when Saudi Aramco has transferred the significant risks and rewards of ownership which occurs when product is physically transferred. Once receivables from these customers are past due, these trade receivables are reclassified as a Due from the Government current receivable.

Implementing regulations issued by the Government on December 28, 2017 allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government. Balance due from the Government at December 31 represents amounts to be settled through offset against tax payments.

**(o) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and in banks together with all highly liquid investments purchased with original maturities of three months or less.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(p) Financial liabilities**

Financial liabilities are classified as financial liabilities at FVPL or as financial liabilities measured at amortized cost, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

Saudi Aramco's financial liabilities are:

**(i) Financial liabilities at FVPL**

Derivative financial liabilities are categorized as held for trading unless they are designated as hedges (Note 2(k)). Derivative financial liabilities held for trading are included in current liabilities under trade and other payables with gains or losses recognized in net income.

**(ii) Financial liabilities at amortized cost**

Financial liabilities other than financial liabilities at FVPL are classified as financial liabilities measured at amortized cost net of transaction costs. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Discounting is omitted when the effect is immaterial. Financial liabilities measured at amortized cost are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial liabilities at amortized cost include trade and other payables and borrowings. Financial liabilities are disclosed separately from financial assets in the Consolidated Balance Sheet unless there is a right to offset.

**(q) Borrowing costs**

Any difference between borrowing proceeds and the redemption value is recognized as finance costs in the Consolidated Statement of Income over the term of the borrowing using the effective interest method.

Borrowing costs are expensed as incurred except for those costs directly attributable to the acquisition, construction or production of a qualifying asset which are capitalized as part of the cost of that asset until the asset is complete for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for intended use or sale.

**(r) Post-employment benefit plans**

**(i) Pension plans**

Funded pension plans are non-contributory plans for the majority of employees and are generally funded by payments by Saudi Aramco to independent trusts or other separate entities. Assets held by the independent trusts and other separate entities are held at their fair value. Valuations of both funded and unfunded plans are performed annually by independent actuaries using the projected unit credit method. The valuations take into account employees' years of service, average or final pensionable remuneration, and are discounted to their present value using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit obligation.

The amount recognized in the Consolidated Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The periodic pension cost included in operating costs in the Consolidated Statement of Income in respect of defined benefit pension plans primarily represents the increase in the actuarially assessed present value of the obligation for pension benefits based on employee service during the year and the net interest on the net defined benefit liability or asset. Net interest is calculated by multiplying the defined benefit liability and plan assets by the

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

discount rate applied to each plan at the beginning of each year, amended for changes to the defined benefit liability and plan assets as a result of benefit payments or contributions.

Past service costs, representing plan amendments, are recognized immediately as pension costs in the Consolidated Statement of Income, regardless of the remaining vesting period.

Remeasurements representing actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, and the actual returns on plan assets excluding interest on plan assets, are credited or charged to equity, net of tax, through other comprehensive income.

For defined contribution plans where benefits depend solely on the amount contributed to or due to the employee's account and the returns earned from the investment of those contributions, plan cost is the amount contributed by or due from Saudi Aramco and is recognized as an expense in the Consolidated Statement of Income.

**(ii) Other post-employment benefits**

Saudi Aramco provides certain post-employment healthcare, life insurance and other benefits to retirees and certain former employees. The entitlement is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. To the extent these plans are not fully funded, a liability is recognized in the Consolidated Balance Sheet. Valuations of benefits are performed by independent actuaries.

Such plans follow the same accounting methodology as used for defined benefit pension plans.

*Significant accounting judgments and estimates*

The cost of defined benefit pension plans and post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions, which are reviewed annually. Key assumptions include discount rates, future salary increases, future healthcare costs, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Information about amounts reported in respect of defined benefit plans, assumptions applicable to the plans and their sensitivity to changes are presented in Note 18.

**(s) Provisions and contingencies**

Provisions are liabilities where the timing or amount of future expenditures is uncertain. Provisions are recognized when Saudi Aramco has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are recorded at the best estimate of the present value of the expenditure required to settle the obligation at the end of the reporting period. Amounts are discounted, unless the effect of discounting is immaterial, using an appropriate discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense within finance costs in the Consolidated Statement of Income.

Saudi Aramco records a provision and a corresponding asset for decommissioning activities in Upstream operations for well plugging and abandonment activities. The obligation for a well is recognized when it is drilled. Decommissioning provisions associated with Downstream facilities are generally not recognized, as the potential obligations cannot be measured, given their indeterminate settlement dates. The liability for decommissioning obligations will be recognized in the period when sufficient information becomes available to estimate a range of potential settlement dates. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows. The value of the obligation is added to the carrying amount of the related asset and amortized over the useful life of the asset. The increase in the provision due to the passage of

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

time is recognized as finance costs in the Consolidated Statement of Income. Changes in future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows are recognized as a change in provision and related asset.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where the inflow of economic benefits is probable.

*Significant accounting judgments and estimates*

Most of Saudi Aramco's well plugging and abandonment activities are many years into the future with technology and costs constantly changing. Estimates of the amounts of a provision are recognized based on current legal and constructive requirements and cost associated to abandon using existing technologies. Actual costs are uncertain and estimates can vary as a result of changes in the scope of the project and/or relevant laws and regulation. The estimated timing of decommissioning may change due to certain factors, such as reserve life, a decision to terminate operations, or changes in legislation. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented. As a result, significant judgment is applied in the initial recognition and subsequent adjustment of the provision and the capitalized cost associated with decommissioning, plugging and abandonment obligations. Any subsequent adjustments to the provision are made prospectively. Detail on the particular assumptions applied when making certain non-current provisions is included in Note 19.

**(t) Foreign currency translation**

The USD is the functional currency of the Company and substantially all of its subsidiaries. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign currency monetary assets or liabilities are translated at each reporting date using the prevailing reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as a component of net income. Non-monetary assets and liabilities, other than those measured at fair value, are translated using the exchange rate at the date of the transactions.

*Significant accounting judgments and estimates*

The Company has determined that USD is the functional currency as a substantial amount of its products are traded in USD in international markets. However, a substantial amount of costs of the Company are denominated in SAR which has been exchanged at a fixed rate to USD since 1986. A change in the fixed exchange rate could impact the recorded revenue, expenses, assets and liabilities of the Company.

**(u) Presentation currency**

The consolidated financial statements are presented in SAR. The financial position and results of the operations of the Company, subsidiaries, joint arrangements and associates that have a functional currency which is different from the presentation currency are translated at reporting date exchange rates and the average exchange rates that approximate the cumulative effect of rates prevailing at the transaction dates, respectively. All resulting exchange differences are recognized through other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to the particular foreign operation is recognized in net income.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Translations from SAR to USD presented as supplementary information in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows as at and for the years ended December 31, 2018 and 2017, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the Consolidated Balance Sheet dates.

**(v) Revenue recognition and sales prices**

Revenue from sales of crude oil and related products is recognized upon the satisfaction of performance obligations, which occurs when control transfers to the customer. Control of the products is determined to be transferred to the customer when the title of crude oil and related products passes to the customer, which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue contracts for crude and certain related products provide for provisional pricing at the time of shipment, with final pricing based on the average market price for a particular future period. Revenue on these contracts is recorded based on the estimate of the final price at the time control is transferred to the customer. Any difference between the estimate and the final price is recorded as a change in fair value of the related receivable, as part of revenue, in the Consolidated Statement of Income. Where applicable the transaction price is allocated to the individual performance obligations of a contract based on their relative stand-alone selling prices.

**(w) Other income related to sales**

The Government compensates the Company through price equalization for revenue directly foregone as a result of the Company's compliance with local regulations governing domestic sales and distribution of certain liquid products. This compensation reflected in these consolidated financial statements, described as supplemental income in the year ended December 31, 2017, is calculated by the Company as the difference between the product's equalization price and the corresponding domestic regulated price, net of Government fees, in accordance with the implementing regulations issued by the Government on December 28, 2017 which were effective from January 1, 2017.

This compensation is recorded as other income related to sales, that is taxable, when Saudi Aramco has transferred to the buyer the significant risks and rewards of ownership which occurs when product is physically transferred. The compensation due from the Government is characterized as a Due from the Government (Note 2(n)) current receivable and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less impairment losses, if any.

The implementing regulations allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government.

**(x) Production royalties**

Royalties to the Government are calculated based on a progressive scheme applied to crude oil and condensate production. An effective royalty rate is applied to production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 20% applied to prices up to \$70 per barrel, increasing to 40% applied to prices above \$70 per barrel and 50% applied to prices above \$100 per barrel. All such royalties are accounted for as an expense in the Consolidated Statement of Income and are deductible costs for Government income tax calculations.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(y) Research and development**

Development costs that are expected to generate probable future economic benefits are capitalized as intangible assets and amortized over their estimated useful life. All other research and development costs are recognized in net income as incurred.

**3. Financial risk management**

Saudi Aramco operates internationally but has limited exposure to financial risks. Financial risks include market risk (including foreign currency exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. Financial risk management is carried out primarily by a central treasury department. The adequacy of financial risk management policies is regularly reviewed with consideration of current activities and market conditions on a consolidated basis. Saudi Aramco uses derivative financial instruments with limited complexity to manage certain risk exposures and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**(a) Financial risk factors**

**(i) Market risk**

- 1) Foreign currency exchange risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Saudi Aramco operates internationally but has limited exposure to financial risk due to changes in foreign currency exchange rates as most of the significant transactions are denominated in its functional currency (Note 2(t)), are linked to its functional currency or are hedged. Saudi Aramco's limited foreign currency exchange risk arises from future commercial transactions or recognized assets or liabilities denominated in a currency that is not Saudi Aramco's functional currency. In addition, a substantial amount of costs of Saudi Aramco are denominated in SAR which has been at a fixed rate to USD since 1986. A change in the fixed exchange rate would result in foreign exchange differences being recognized in the consolidated financial statements.

Saudi Aramco engages in hedging activities through the use of currency forward contracts to manage its exchange exposure from significant transactions denominated in a foreign currency. The hedge ratio considers variability in potential outcomes, spot rates, as well as interest rates, and on a transaction by transaction basis can cover up to 100% of the exposure at inception.

The notional amounts of outstanding currency forward contracts designated as hedging instruments are included in Note 26.

- 2) Price risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Price risk primarily stems from investments in securities and commodity trading.

**a) Investments in securities**

Saudi Aramco has limited exposure to price risk with such risk arising, primarily, from investments in securities carried at fair value.

Saudi Aramco regularly reviews its positions in investments in securities considering current and expected future economic trends.

At December 31, 2018 and 2017, a change in fair value due to a movement of 5% in the price of listed equity securities would result in a change in other comprehensive income before income taxes of SAR 366 and SAR 447, respectively.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

At December 31, 2018 and 2017, a change in fair value due to a movement of 5% in the unit price of mutual and hedge funds would result in a change in income before income taxes of SAR 209 and SAR 210, respectively.

**b) Commodity swaps**

Saudi Aramco trades refined, natural gas liquid, and bulk petrochemical products and uses commodity swaps as a means of managing price and timing of risks arising from this trading. In effecting these transactions, Saudi Aramco operates within policies and procedures designed to ensure that risks, including those related to the default of counterparties, are managed within authorized limits. The notional amounts of outstanding commodity swap contracts are included in Note 26.

**3) Interest rate risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Saudi Aramco is exposed to interest rate risk from changes in interest rates that affect the fair value or future cash flows of financial instruments, principally borrowings, issued at variable and fixed rates. Borrowings issued at variable rates expose Saudi Aramco to cash flow interest rate risk which is partially offset by short-term time deposits and debt securities held at variable rates. Borrowings issued at fixed rates expose Saudi Aramco to fair value interest rate risk. Saudi Aramco may enter into interest rate swap agreements as part of its overall strategy to manage the interest rate risk on its debt.

At December 31, 2018 and 2017, a change of 1% in market interest rates, with all other variables held constant, would result in a net change of SAR 1,125 and SAR 307, respectively, in Saudi Aramco's income before income taxes as a result of the effect of higher or lower market interest rates.

The notional amounts of interest rate swap contracts are included in Note 26.

**(ii) Credit risk**

Credit risk is the risk that counterparties might not fulfill their contractual payment obligations towards an entity.

Saudi Aramco is exposed to credit risk related to its counterparties not performing or honoring their obligations which would result in financial loss. Credit risk arises from credit exposures on trade receivables as well as from cash and cash equivalents, short-term-investments, debt securities classified as FVOCI, and derivatives with financial institutions. The maximum exposure to credit risk is the carrying value of these assets.

Saudi Aramco's trade receivables arise from a global customer base which limits geographic concentrations of credit risk. Moreover, a credit risk policy is in place to ensure credit limits are extended to creditworthy counterparties and risk mitigation measures are defined and implemented accordingly. Saudi Aramco performs ongoing evaluations of its counterparty's financial standing and takes additional measures to mitigate credit risk when considered appropriate by means of letter of credits, bank guarantees or parent company guarantees.

In addition, the credit policy limits the amount of credit exposure to any individual counterparty based on their credit rating as well as other factors. Moreover, Saudi Aramco's investment policy limits exposure to credit risk arising from investment activities. The policy requires that cash and cash equivalents and short-term investments be invested with a diversified group of financial institutions with acceptable credit ratings. Saudi Aramco ensures that each counterparty is of an acceptable credit quality by relying on quantitative and qualitative measures compiled from internal and third party rating models. At the end of 2018, all of the short-term investments were with financial institutions assigned a long-term credit rating of "BBB+" (2017: "BBB+") or above.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Employee home loans (Note 9(a)) and debt securities measured at FVOCI are generally considered to have low credit risk based on history of default and thus the impairment provision recognized during the year based on the general approach allowed by IFRS 9, where applicable, was substantially limited to 12-month expected losses.

Saudi Aramco applies the simplified approach allowed by IFRS 9 in providing for expected credit losses for trade receivables. The simplified approach uses the lifetime expected loss provision for all trade receivables. Such credit losses have historically been nominal and the loss allowance for trade receivables (Note 12) is not material.

**(iii) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Saudi Aramco's liquidity risk management includes maintaining sufficient cash and cash equivalents and ensuring the availability of incremental funding through credit facilities (Note 17). Management also monitors and forecasts Saudi Aramco's liquidity requirements based on current and non-current expected cash flows.

Saudi Aramco invests surplus cash in current accounts, time deposits, money market deposits, government repurchase agreements and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to meet forecasted cash flow requirements. Saudi Aramco prioritizes security and liquidity over yield.

Note 17 analyzes Saudi Aramco's borrowings into relevant maturity groupings based on the balances associated with each contractual maturity date at the end of the reporting period.

**(b) Capital structure management**

Saudi Aramco seeks to maintain a prudent capital structure, comprising of borrowings and Shareholder's equity, to support its capital investment plans and maintain a sustainable, growing dividend profile. Maintaining sufficient financial flexibility is considered strategically important to mitigate industry cyclicality while also enabling the pursuit of organic and inorganic investment opportunities. Borrowings or dividends will result in an adjustment to the Company's capital structure.

**(c) Casualty loss risk retention**

Saudi Aramco's casualty loss risk strategy includes a risk retention and insurance program, including providing coverage to certain joint arrangements and associates limited to Saudi Aramco's percentage interest in the relevant entity. Current maximum risk retention is SAR 2,118 per loss event (2017: SAR 1,875) and various insurance limits apply, of which the risk retention forms a part. Should a credible loss event occur, the maximum insurance limit above retention is SAR 4,875 (2017: SAR 4,875) per event dependent on the circumstances.

**(d) Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco's financial assets and liabilities are not materially different from their carrying amounts at the end of the reporting period.

Saudi Aramco measures financial instruments such as derivatives, equity investments classified as FVPL, and equity investments and debt securities classified as FVOCI, at fair value at each balance

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

sheet date. Saudi Aramco uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following table presents Saudi Aramco's assets and liabilities that are measured and recognized at fair value at the years ended December 31, based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at December 31.

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2018:</b>				
Investments in securities:				
Equity securities at FVOCI .....	7,324	—	1,293	8,617
Debt securities at FVOCI .....	19	3,908	—	3,927
Equity securities at FVPL .....	—	991	4,237	5,228
Trade receivables related to contracts with provisional pricing arrangements .....	—	—	73,509	73,509
	<u>7,343</u>	<u>4,899</u>	<u>79,039</u>	<u>91,281</u>
Other current assets:				
Interest rate swaps .....	—	191	—	191
Commodity swaps .....	184	2,393	—	2,577
Currency forward contracts .....	—	33	—	33
	<u>184</u>	<u>2,617</u>	<u>—</u>	<u>2,801</u>
<b>Total assets</b> .....	<u>7,527</u>	<u>7,516</u>	<u>79,039</u>	<u>94,082</u>
<b>2017:</b>				
Investments in securities:				
Available-for-sale equity investments .....	8,940	1,085	4,438	14,463
Available-for-sale debt securities .....	19	3,812	—	3,831
Financial assets at fair value through profit or loss .....	—	3	845	848
	<u>8,959</u>	<u>4,900</u>	<u>5,283</u>	<u>19,142</u>
Other current assets:				
Interest rate swaps .....	—	122	—	122
Commodity swaps .....	—	253	—	253
Currency forward contracts .....	—	93	—	93
	<u>—</u>	<u>468</u>	<u>—</u>	<u>468</u>
<b>Total assets</b> .....	<u>8,959</u>	<u>5,368</u>	<u>5,283</u>	<u>19,610</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

<u>Liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2018:</b>				
Derivative financial liabilities at fair value through profit or loss .....	—	—	—	—
Commodity swaps .....	—	<b>1,069</b>	—	<b>1,069</b>
Currency forward contracts .....	—	<b>180</b>	—	<b>180</b>
Interest rate swaps .....	—	<b>71</b>	—	<b>71</b>
	<u>—</u>	<u><b>1,320</b></u>	<u>—</u>	<u><b>1,320</b></u>
<b>2017:</b>				
Derivative financial liabilities at fair value through profit or loss .....	—	26	91	117
Commodity swaps .....	—	544	—	544
Currency forward contracts .....	—	18	—	18
Interest rate swaps .....	—	45	—	45
	<u>—</u>	<u>633</u>	<u>91</u>	<u>724</u>

Realized and unrealized gains of SAR 998 from commodity swap financial instruments are recognized in net income for the year ended December 31, 2018 (2017: realized and unrealized losses of SAR 560).

The valuation techniques for Saudi Aramco's investments in securities are described in Note 10. The changes in Level 3 investments in securities for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
<b>January 1</b> .....	<b>5,283</b>	4,301
Net additions .....	<b>389</b>	683
Acquisition .....	<b>11</b>	—
Realized gain/(loss) .....	<b>8</b>	(8)
Net movement in unrealized fair value (loss)/gain .....	<b>(161)</b>	307
<b>December 31</b> .....	<b>5,530</b>	<b>5,283</b>

The movement in trade receivables related to contracts with provisional pricing arrangements mainly relates to sales transactions, net of settlements, made during the period, resulting from contracts with customers. Unrealized fair value movements on these trade receivables are not significant.

#### 4. Operating segments

Saudi Aramco operates in the oil and gas industry within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside of the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At December 31, 2018, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into a Corporate segment. Upstream activities include crude oil, natural gas and natural gas liquids exploration, field development and production. Downstream activities include the refining, logistics, power generation, and the marketing of crude oil, petroleum and petrochemical products and related services to international and domestic customers. Corporate activities include primarily supporting services including Human Resources, Finance and IT not allocated to Upstream and Downstream. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

During 2018, the profit measure used by the Chief Operating Decision Maker for making decisions about resource allocation to and performance assessment of the operating segments was changed from net income to earnings before interest and taxes. Further, unrealized profit in inventory is now included as part of eliminations. The prior period results have been presented on a consistent basis.

The accounting policies used by Saudi Aramco in reporting segments internally are the same as those contained in Note 2 of the consolidated financial statements.

Information by segments is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>2018</b>					
External revenue . . . . .	776,233	404,575	1,329	—	1,182,137
Other income related to sales . . . . .	37,189	115,452	—	—	152,641
Inter-segment revenue . . . . .	288,739	32,798	256	(321,793)	—
Share of results of joint ventures and associates . . . . .	(1)	(1,274)	(140)	—	(1,415)
Depreciation and amortization . . . . .	(27,495)	(11,941)	(1,898)	—	(41,334)
Dividends and other income . . . . .	—	1,024	1	—	1,025
Earnings before interest and taxes . . . . .	796,321	12,638	(12,927)	1,983	798,015
Finance income . . . . .					2,840
Finance costs . . . . .					(2,959)
Income before income taxes . . . . .					797,896
Capital expenditures—cash basis . . . . .	96,768	32,677	2,321	—	131,766

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>2017</b>					
External revenue . . . . .	574,020	265,253	1,210	—	840,483
Other income related to sales . . . . .	29,121	121,055	—	—	150,176
Inter-segment revenue . . . . .	213,493	29,519	—	(243,012)	—
Share of results of joint ventures and associates . . . . .	(2)	(910)	(44)	—	(956)
Depreciation and amortization . . . . .	(25,788)	(9,485)	(1,902)	—	(37,175)
Dividends and other income . . . . .	—	269	83	—	352
Earnings before interest and taxes . . . . .	574,016	23,297	(12,111)	(2,891)	582,311
Finance income . . . . .					1,217
Finance costs . . . . .					(2,090)
Income before income taxes . . . . .					581,438
Capital expenditures—cash basis . . . . .	82,508	35,569	3,878	—	121,955

Information by geographical area is as follows:

	<u>In Kingdom</u>	<u>Out of Kingdom</u>	<u>Total</u>
<b>2018</b>			
External revenue . . . . .	979,530	202,607	1,182,137
Property, plant and equipment, intangible assets, investments in joint ventures and associates . . . . .	814,997	108,305	923,302
<b>2017</b>			
External revenue . . . . .	696,477	144,006	840,483
Property, plant and equipment, intangible assets, investments in joint ventures and associates . . . . .	722,936	79,817	802,753

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Sales to external customers by region are based on the location of the Saudi Aramco entity which made the sale.

Property, plant and equipment, intangible assets and investment in joint ventures and associates by region are based on the location of the Saudi Aramco entity holding the assets.

**5. Property, plant and equipment**

	Crude oil facilities	Refinery and petrochemical facilities	Gas & NGL facilities	General service plant	Construction in progress	Total
<b>Cost</b>						
January 1, 2018	468,598	172,065	329,480	78,951	206,248	1,255,342
Acquisitions (Note 31)	—	9,019	—	—	18,878	27,897
Additions	2,107	3,006	264	9,124	119,402	133,903
Construction completed	29,829	23,669	31,470	4,177	(89,145)	—
Currency translation differences	—	(1,820)	—	(1)	(469)	(2,290)
Transfers	3,454	(586)	24	(3,114)	529	307
Transfer of exploration and evaluation assets	—	—	—	—	2,164	2,164
Retirements and sales	(707)	(120)	(97)	(655)	—	(1,579)
<b>December 31, 2018</b>	<b>503,281</b>	<b>205,233</b>	<b>361,141</b>	<b>88,482</b>	<b>257,607</b>	<b>1,415,744</b>
<b>Accumulated depreciation</b>						
January 1, 2018	(237,729)	(67,323)	(147,357)	(51,799)	—	(504,208)
Additions	(16,208)	(8,269)	(12,929)	(2,935)	—	(40,341)
Currency translation differences	—	848	—	—	—	848
Transfers	(164)	202	—	404	—	442
Retirements and sales	557	104	66	615	—	1,342
<b>December 31, 2018</b>	<b>(253,544)</b>	<b>(74,438)</b>	<b>(160,220)</b>	<b>(53,715)</b>	<b>—</b>	<b>(541,917)</b>
<b>Property, plant and equipment— net, December 31, 2018</b>	<b>249,737</b>	<b>130,795</b>	<b>200,921</b>	<b>34,767</b>	<b>257,607</b>	<b>873,827</b>
<b>Cost</b>						
January 1, 2017	440,119	130,909	306,225	71,888	155,321	1,104,462
Acquisitions (Note 31)	—	33,983	—	—	—	33,983
Additions	3,741	997	486	2,118	109,143	116,485
Construction completed	25,538	2,275	24,277	6,971	(59,061)	—
Currency translation differences	—	3,998	—	1	1,222	5,221
Transfers	(75)	24	(1)	(1,268)	(2,768)	(4,088)
Transfer of exploration and evaluation assets	—	—	—	—	2,504	2,504
Retirements and sales	(725)	(121)	(1,507)	(759)	(113)	(3,225)
December 31, 2017	468,598	172,065	329,480	78,951	206,248	1,255,342
<b>Accumulated depreciation</b>						
January 1, 2017	(222,824)	(58,988)	(136,601)	(50,683)	—	(469,096)
Additions	(15,335)	(6,503)	(11,675)	(2,932)	—	(36,445)
Currency translation differences	—	(1,906)	—	—	—	(1,906)
Transfers	(295)	(25)	(296)	1,083	—	467
Retirements and sales	725	99	1,215	733	—	2,772
December 31, 2017	(237,729)	(67,323)	(147,357)	(51,799)	—	(504,208)
<b>Property, plant and equipment— net, December 31, 2017</b>	<b>230,869</b>	<b>104,742</b>	<b>182,123</b>	<b>27,152</b>	<b>206,248</b>	<b>751,134</b>



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Finance lease assets with net book values of SAR 11,912 (2017: SAR 4,250) and SAR 705 (2017: SAR 251) are included in General service plant and Refinery and petrochemical facilities, respectively.

**6. Intangible assets**

	Exploration and evaluation	Brands and trademarks	Franchise/ customer relationships	Computer software	Other	Total
<b>Cost</b>						
January 1, 2018 .....	16,008	4,931	1,318	4,101	1,589	27,947
Acquisitions (Note 31) .....	—	—	—	189	289	478
Additions .....	8,021	—	—	254	80	8,355
Currency translation differences .....	—	(104)	(55)	—	(7)	(166)
Transfers .....	—	—	—	(234)	208	(26)
Transfer of exploration and evaluation assets .....	(2,164)	—	—	—	—	(2,164)
Write-offs .....	(2,949)	—	—	—	(2)	(2,951)
<b>December 31, 2018 .....</b>	<b>18,916</b>	<b>4,827</b>	<b>1,263</b>	<b>4,310</b>	<b>2,157</b>	<b>31,473</b>
<b>Accumulated amortization:</b>						
January 1, 2018 .....	—	(660)	(557)	(2,351)	(33)	(3,601)
Additions .....	—	(408)	(184)	(261)	(140)	(993)
Currency translation differences .....	—	24	26	—	—	50
Transfers .....	—	(2)	—	71	(102)	(33)
<b>December 31, 2018 .....</b>	<b>—</b>	<b>(1,046)</b>	<b>(715)</b>	<b>(2,541)</b>	<b>(275)</b>	<b>(4,577)</b>
<b>Intangible assets—net, December 31, 2018 .....</b>	<b>18,916</b>	<b>3,781</b>	<b>548</b>	<b>1,769</b>	<b>1,882</b>	<b>26,896</b>
<b>Cost</b>						
January 1, 2017 .....	11,258	2,330	1,233	3,086	581	18,488
Acquisitions (Note 31) .....	—	2,438	—	439	1,008	3,885
Additions .....	12,393	—	—	393	—	12,786
Currency translation differences .....	—	283	148	—	—	431
Transfers .....	3,016	(120)	(63)	183	—	3,016
Transfer of exploration and evaluation assets .....	(2,504)	—	—	—	—	(2,504)
Write-offs .....	(8,155)	—	—	—	—	(8,155)
December 31, 2017 .....	16,008	4,931	1,318	4,101	1,589	27,947
<b>Accumulated amortization</b>						
January 1, 2017 .....	—	(513)	(263)	(2,112)	—	(2,888)
Additions .....	—	(302)	(168)	(227)	(33)	(730)
Currency translation differences .....	—	(58)	(63)	—	—	(121)
Transfers .....	—	213	(63)	(12)	—	138
December 31, 2017 .....	—	(660)	(557)	(2,351)	(33)	(3,601)
<b>Intangible assets—net, December 31, 2017 .....</b>	<b>16,008</b>	<b>4,271</b>	<b>761</b>	<b>1,750</b>	<b>1,556</b>	<b>24,346</b>

Other intangible assets include right of use assets of SAR 882 (2017: SAR 811), patents and intellectual property of SAR 420 (2017: SAR 368) and goodwill of SAR 580 (2017: SAR 377).

Cash used for exploration and evaluation operating activities in 2018 was SAR 4,977 (2017: SAR 5,203) and expenditures for investing activities were SAR 8,021 (2017: SAR 12,393).

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**7. Investments in joint ventures and associates**

Company	Equity Ownership 2018/ 2017	Principal place of business	Nature of activities	Carrying amount at December 31, 2018	Carrying amount at December 31, 2017
Sadara Chemical Company ("Sadara") <sup>(1)(2)</sup> . . . . .	<b>65%</b>	Saudi Arabia	Petrochemical	<b>11,660</b>	11,729
ARLANXEO Holding B.V. ("ARLANXEO") <sup>(3)</sup> . . . . .	<b>Nil /50%</b>	Netherlands	Synthetic rubber	—	5,419
Rabigh Refining and Petrochemical Company ("Petro Rabigh") <sup>(2)(4)</sup> . . . . .	<b>37.5%</b>	Saudi Arabia	Refining/ petrochemical	<b>2,763</b>	2,525
Fujian Refining and Petrochemical Company Limited ("FREP") . . . . .	<b>25%</b>	People's Republic of China	Refining/ petrochemical	<b>2,419</b>	2,477
National Shipping Company of Saudi Arabia ("Bahri") <sup>(4)</sup> . . . . .	<b>20%</b>	Saudi Arabia	Global logistics services	<b>2,129</b>	2,120
Jubail and Yanbu Electricity and Water Utility Company ("Marafiq") . . . . .	<b>24.8%</b>	Saudi Arabia	Utilities	<b>1,831</b>	1,687
International Maritime Industries ("IMI") <sup>(1)</sup> . . . . .	<b>50.1%</b>	Saudi Arabia	Maritime	<b>425</b>	146
Sinopec SenMei (Fujian) Petroleum Company Limited ("SSPC") . . . . .	<b>22.5%</b>	People's Republic of China	Marketing/ petrochemical	<b>401</b>	471
Juniper Ventures of Texas LLP ("Juniper") <sup>(1)</sup> . . . . .	<b>60% /Nil</b>	United States	Marketing	<b>331</b>	—
First Coast Energy LLP . . . . .	<b>50%</b>	United States	Marketing Lubricants	<b>263</b>	298
S-Oil TOTAL Lubricants Limited . . . . .	<b>50%</b>	South Korea	production/sale	<b>147</b>	156
Saudi Arabian Industrial Investment Company ("IIC") . . . . .	<b>25%</b>	Saudi Arabia	Investment	<b>116</b>	145
GCC Electrical Equipment Testing Lab ("GCC Lab") . . . . .	<b>20%</b>	Saudi Arabia	Inspection	<b>63</b>	67
Star Enterprises LLC ("Star") . . . . .	<b>50%</b>	United States	Pension Administration	<b>27</b>	33
Pan Arabian Program Management Company ("PAPMCS") . . . . .	<b>50% / Nil</b>	Saudi Arabia	Engineering services	<b>4</b>	—
				<b><u>22,579</u></b>	<b><u>27,273</u></b>

- (1) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint venture/associate does not qualify as a subsidiary and has not been consolidated.
- (2) The Company has provided guarantees as described in Note 25.
- (3) As a result of the transaction described in Note 31(c)(i), on December 31, 2018, ARLANXEO became a wholly owned subsidiary of the Company.
- (4) Listed company.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The components of the change in the investments in joint ventures and associates for the years ended December 31, 2018 and 2017 are as follows:

	Joint Ventures		Associates	
	2018	2017	2018	2017
<b>January 1</b> .....	<b>12,216</b>	29,564	<b>15,057</b>	13,936
Share of results of joint ventures and associates .....	<b>(2,608)</b>	(2,079)	<b>1,193</b>	1,123
Additional investment .....	<b>2,531</b>	5,349	<b>368</b>	317
Investment in joint venture (Note 31(a)) .....	<b>331</b>	—	—	—
Derecognition of investment in ARLANXEO (Note 31(c)(i)) ...	—	—	<b>(4,943)</b>	—
Derecognition of investment in Motiva (Note 31(c)(ii)) .....	—	(21,086)	—	—
Distributions .....	<b>(75)</b>	(116)	<b>(998)</b>	(724)
Change in elimination of profit in inventory .....	<b>(23)</b>	569	<b>(80)</b>	(39)
Share of other comprehensive income (losses) .....	<b>53</b>	15	<b>(443)</b>	444
<b>December 31</b> .....	<b>12,425</b>	12,216	<b>10,154</b>	15,057

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in Saudi Aramco's financial statements at December 31, 2018 are set out below:

**Summarized Balance Sheet**  
**At December 31, 2018**

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
<b>Current assets:</b>						
Cash and cash equivalents .....	<b>1,384</b>	—	<b>3,184</b>	<b>4,035</b>	<b>4,189</b>	<b>12,792</b>
Other .....	<b>7,931</b>	—	<b>15,904</b>	<b>5,104</b>	<b>6,503</b>	<b>35,442</b>
Total current assets .....	<b>9,315</b>	—	<b>19,088</b>	<b>9,139</b>	<b>10,692</b>	<b>48,234</b>
<b>Non-current assets</b> .....	<b>72,422</b>	—	<b>52,178</b>	<b>10,851</b>	<b>42,019</b>	<b>177,470</b>
<b>Current liabilities:</b>						
Financial liabilities (excluding trade and other payables) .....	<b>3,525</b>	—	<b>13,898</b>	<b>656</b>	<b>2,891</b>	<b>20,970</b>
Other .....	<b>6,105</b>	—	<b>14,273</b>	<b>2,700</b>	<b>5,850</b>	<b>28,928</b>
Total current liabilities .....	<b>9,630</b>	—	<b>28,171</b>	<b>3,356</b>	<b>8,741</b>	<b>49,898</b>
<b>Non-current liabilities:</b>						
Financial liabilities (excluding trade and other payables) .....	<b>48,634</b>	—	<b>33,641</b>	<b>6,806</b>	<b>21,075</b>	<b>110,156</b>
Other .....	<b>5,280</b>	—	<b>488</b>	<b>154</b>	<b>1,316</b>	<b>7,238</b>
Total non-current liabilities .....	<b>53,914</b>	—	<b>34,129</b>	<b>6,960</b>	<b>22,391</b>	<b>117,394</b>
<b>Net assets</b> .....	<b>18,193</b>	—	<b>8,966</b>	<b>9,674</b>	<b>21,579</b>	<b>58,412</b>
Saudi Aramco interest .....	<b>65%</b>	Nil	<b>37.5%</b>	<b>25%</b>	<b>20%-50.1%</b>	
<b>Saudi Aramco share</b> .....	<b>11,825</b>	—	<b>3,362</b>	<b>2,419</b>	<b>5,363</b>	<b>22,969</b>
Elimination of profit in inventory ...	<b>11</b>	—	<b>(388)</b>	—	<b>(2)</b>	<b>(379)</b>
Fair value and other adjustments ...	<b>(176)</b>	—	<b>(211)</b>	—	<b>376</b>	<b>(11)</b>
<b>Investment balance,</b>						
<b>December 31</b> .....	<b>11,660</b>	—	<b>2,763</b>	<b>2,419</b>	<b>5,737</b>	<b>22,579</b>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**Summarized Statement of Comprehensive Income**  
**Year ended December 31, 2018**

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
Revenue .....	13,114	14,288	42,165	29,760	34,725	134,052
Depreciation and amortization .....	3,848	1,429	2,445	1,373	2,254	11,349
Conventional interest income .....	—	—	296	90	60	446
Interest expense .....	2,258	146	728	368	626	4,126
Income tax expense .....	49	135	128	638	285	1,235
Net (loss) income .....	(4,009)	(98)	1,301	1,609	1,028	(169)
Other comprehensive income (loss) .....	94	(578)	(15)	(495)	(86)	(1,080)
Total comprehensive (loss) income .....	(3,915)	(676)	1,286	1,114	942	(1,249)

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

	Conventional financial assets as of December 31, 2018	Conventional financial liabilities as of December 31, 2018	Interest income from conventional financial assets for the year ended December 31, 2018
Sadara .....	6,765	52,159	—
FREP .....	4,778	7,463	90
Marafiq .....	2,906	5,213	26
SSPC .....	1,155	—	30
IMI .....	859	124	—
IIC .....	544	8	—
S-Oil TOTAL Lubricants Limited .....	251	143	—
GCC Lab .....	109	—	4
Pan Arabian Program Management Company .....	38	—	—
Juniper .....	8	23	—
First Coast Energy LLP .....	—	585	—
Star .....	—	—	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in Saudi Aramco's financial statements at December 31, 2017 are set out below:

**Summarized Balance Sheet**  
**At December 31, 2017**

	<u>Sadara</u>	<u>ARLANXEO</u>	<u>Petro Rabigh</u>	<u>FREP</u>	<u>Other</u>	<u>Total</u>
<b>Current assets:</b>						
Cash and cash equivalents . . . . .	506	1,279	2,670	3,311	5,896	13,662
Other . . . . .	<u>7,583</u>	<u>4,960</u>	<u>9,101</u>	<u>6,352</u>	<u>5,204</u>	<u>33,200</u>
Total current assets . . . . .	<u>8,089</u>	<u>6,239</u>	<u>11,771</u>	<u>9,663</u>	<u>11,100</u>	<u>46,862</u>
<b>Non-current assets . . . . .</b>	<u>71,364</u>	<u>7,368</u>	<u>51,829</u>	<u>11,768</u>	<u>43,537</u>	<u>185,866</u>
<b>Current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	2,757	615	3,956	653	1,849	9,830
Other . . . . .	<u>6,172</u>	<u>2,033</u>	<u>9,161</u>	<u>2,899</u>	<u>6,916</u>	<u>27,181</u>
Total current liabilities . . . . .	<u>8,929</u>	<u>2,648</u>	<u>13,117</u>	<u>3,552</u>	<u>8,765</u>	<u>37,011</u>
<b>Non-current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	52,084	195	42,473	7,838	24,247	126,837
Other . . . . .	<u>326</u>	<u>1,436</u>	<u>394</u>	<u>135</u>	<u>1,271</u>	<u>3,562</u>
Total non-current liabilities . . . . .	<u>52,410</u>	<u>1,631</u>	<u>42,867</u>	<u>7,973</u>	<u>25,518</u>	<u>130,399</u>
<b>Net assets . . . . .</b>	<u>18,114</u>	<u>9,328</u>	<u>7,616</u>	<u>9,906</u>	<u>20,354</u>	<u>65,318</u>
Saudi Aramco interest . . . . .	65%	50%	37.5%	25%	20%-50.1%	
<b>Saudi Aramco share . . . . .</b>	11,774	4,664	2,856	2,477	4,733	26,504
Elimination of profit in inventory . . . . .	34	—	(308)	—	(2)	(276)
Fair value and other adjustments . . . . .	<u>(79)</u>	<u>755</u>	<u>(23)</u>	<u>—</u>	<u>392</u>	<u>1,045</u>
<b>Investment balance,</b>						
<b>December 31 . . . . .</b>	<u>11,729</u>	<u>5,419</u>	<u>2,525</u>	<u>2,477</u>	<u>5,123</u>	<u>27,273</u>

**Summarized Statement of Comprehensive Income**  
**Year ended December 31, 2017**

	<u>Sadara</u>	<u>ARLANXEO</u>	<u>Petro Rabigh</u>	<u>FREP</u>	<u>Other</u>	<u>Total</u>
Revenue . . . . .	8,434	13,676	24,686	27,401	77,540	151,737
Depreciation and amortization . . . . .	3,146	1,271	1,826	1,433	3,278	10,954
Conventional Interest income . . . . .	4	—	79	116	64	263
Interest expense . . . . .	2,036	113	540	476	931	4,096
Income tax expense . . . . .	8	150	—	945	492	1,595
Net (loss) income . . . . .	(4,841)	(8)	686	2,854	3,312	2,003
Other comprehensive (loss) income . . . . .	<u>(4)</u>	<u>536</u>	<u>—</u>	<u>—</u>	<u>108</u>	<u>640</u>
Total comprehensive (loss) income . . . . .	<u>(4,845)</u>	<u>528</u>	<u>686</u>	<u>2,854</u>	<u>3,420</u>	<u>2,643</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

	Conventional financial assets as of December 31, 2017	Conventional financial liabilities as of December 31, 2017	Interest income from conventional financial assets for the year ended December 31, 2017
Sadara .....	3,555	46,459	—
FREP .....	6,311	11,299	—
ARLANXEO .....	1,703	2,130	—
Marafiq .....	2,055	9,836	41
IIC .....	596	38	4
IMI .....	375	11	—
S-Oil TOTAL Lubricants Limited .....	266	146	—
GCC Lab .....	146	—	4
First Coast Energy LLP .....	26	645	—

Saudi Aramco's share of the fair value of the associates listed in their respective national stock exchanges at December 31 together with their carrying value at those dates is as follows:

	Fair value		Carrying value	
	2018	2017	2018	2017
Petro Rabigh .....	<b>6,268</b>	5,401	<b>2,763</b>	2,525
Bahri .....	<b>2,630</b>	2,479	<b>2,129</b>	2,120

## 8. Income taxes

### (a) Kingdom income tax rates

Effective January 1, 2018, the income tax rate for the Company's sales, exchange or conversion of natural gas, its liquids and gas condensates, including sulfur and other products, was reduced to 20%. At January 1, 2018, deferred tax assets, net of deferred tax liabilities, were increased by SAR 3,785 to reflect the new income tax rate of which SAR 3,904 was recognized as a reduction of income taxes in the Consolidated Statement of Income and SAR 119 was recognized as a loss in the Consolidated Statement of Comprehensive Income.

Effective January 1, 2017, the income tax rate of the Company decreased from 85% to 50%. As of January 1, 2017, net deferred tax assets were reduced by SAR 24,133 to reflect the new income tax rate of which SAR 10,579 was recognized in the Consolidated Statement of Income and SAR 13,554 was recognized in the Consolidated Statement of Comprehensive Income. Saudi Arabian income tax expense is based on taxable income less allowable expenses as set forth in the Tax Law.

Effective January 1, 2017, the Company's direct and indirect investments in shares of resident capital companies became subject to the Tax Law to the extent of the Company's ownership. Previously, the Company's investments in those entities was subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). During 2018, GAZT released implementing guidelines with respect to those resident capital companies in which the Company holds direct or indirect ownership converting from zakat paying entities to income tax paying entities to the extent of the Company's ownership.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

	<u>2018</u>	<u>2017</u>
Income before income taxes .....	<b>797,896</b>	581,438
Income taxes at the Kingdom's statutory tax rates .....	<b>387,937</b>	290,719
Tax effect of:		
Impact of new income tax rate on net deferred tax assets .....	<b>(3,904)</b>	10,579
Impact of change from zakat to income tax on investments in shares of resident capital companies .....	<b>1,282</b>	—
Income not subject to tax at statutory rates and other .....	<b>(3,937)</b>	(4,479)
	<u><b>381,378</b></u>	<u>296,819</u>

**(b) Income tax expense**

	<u>2018</u>	<u>2017</u>
Current income tax—Kingdom .....	<b>365,415</b>	262,296
Current income tax—Foreign .....	<b>349</b>	1,415
Deferred income tax—Kingdom:		
Impact of change in income tax rate .....	<b>(3,904)</b>	10,579
Charge for the period .....	<b>19,830</b>	23,205
Deferred income tax—Foreign .....	<b>(312)</b>	(676)
	<u><b>381,378</b></u>	<u>296,819</u>

Saudi Aramco paid foreign taxes of SAR 605 and SAR 1,052 for the years ended December 31, 2018 and 2017, respectively.

Income tax expense recorded through other comprehensive income was SAR 5,863 for the year ended December 31, 2018 (2017: SAR 17,167).

**(c) Income tax obligation to the Government**

	<u>2018</u>	<u>2017</u>
<b>January 1</b> .....	<b>57,679</b>	28,541
Provided during the year .....	<b>365,415</b>	262,296
Payments during the year (Note 29) .....	<b>(180,119)</b>	(172,753)
Settlements of due from the Government (Note 23(a)) .....	<b>(167,752)</b>	(56,197)
Other settlements .....	<b>(5,648)</b>	(4,208)
<b>December 31</b> .....	<u><b>69,575</b></u>	<u>57,679</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(d) Deferred income taxes**

	2018	2017
<b>Deferred income tax assets:</b>		
Kingdom .....	8,946	13,542
U.S. Federal and State .....	14	27
Other foreign .....	906	37
	9,866	13,606
<b>Deferred income tax liabilities:</b>		
Kingdom .....	18,637	31
U.S. Federal and State .....	2,234	2,430
Other foreign .....	3,006	3,848
	23,877	6,309
<b>Net deferred income tax (liabilities) assets</b> .....	(14,011)	7,297

The gross movement of the net deferred income tax position is as follows:

	2018	2017
<b>January 1</b> .....	7,297	58,339
Current period charge to income .....	(15,614)	(33,108)
Adjustments to equity—Other reserves .....	(5,863)	(17,167)
Other adjustments .....	169	(767)
<b>December 31</b> .....	(14,011)	7,297
	2018	2017
Deferred income tax to be (settled)/recovered after more than 12 months . . .	(14,011)	1,259
Deferred income tax to be recovered within 12 months .....	—	6,038
<b>Net deferred income tax (liabilities) assets</b> .....	(14,011)	7,297



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The movement in deferred income tax assets/(liabilities) for the year is as follows:

	Post- employment benefit obligations	Investments in joint ventures	Undistributed earnings	Provisions and other	Loss carry- forward	Property plant and equipment and intangibles	Fair value of available- for-sale financial assets	Investments in securities at FVOCI	Total
<b>January 1, 2017</b>									
Deferred tax assets . . . . .	39,675	—	—	14,840	3,087	11,572	(4,666)	—	64,508
Deferred tax liabilities . . .	—	(6,659)	(717)	(1,462)	2,669	—	—	—	(6,169)
	<u>39,675</u>	<u>(6,659)</u>	<u>(717)</u>	<u>13,378</u>	<u>5,756</u>	<u>11,572</u>	<u>(4,666)</u>	<u>—</u>	<u>58,339</u>
Recognized during the year									
Impact of new income tax rate . . . . .	(15,475)	—	—	(5,814)	—	(4,765)	1,921	—	(24,133)
Current period (charges) credits to income . . . . .	(992)	(67)	(168)	4,717	1,585	(27,604)	—	—	(22,529)
Other reserves credits (charges) . . . . .	(3,797)	—	—	(39)	—	—	223	—	(3,613)
Other adjustments . . . . .	—	—	—	(767)	—	—	—	—	(767)
	<u>(20,264)</u>	<u>(67)</u>	<u>(168)</u>	<u>(1,903)</u>	<u>1,585</u>	<u>(32,369)</u>	<u>2,144</u>	<u>—</u>	<u>(51,042)</u>
<b>December 31, 2017</b>									
Deferred tax assets . . . . .	19,411	—	—	12,554	4,960	(20,797)	(2,522)	—	13,606
Deferred tax liabilities . . .	—	(6,726)	(885)	(1,079)	2,381	—	—	—	(6,309)
	<u>19,411</u>	<u>(6,726)</u>	<u>(885)</u>	<u>11,475</u>	<u>7,341</u>	<u>(20,797)</u>	<u>(2,522)</u>	<u>—</u>	<u>7,297</u>
Recognized during the year									
Reclassification . . . . .	—	—	—	—	—	—	2,522	(2,522)	—
Impact of new income tax rate . . . . .	(119)	—	—	(538)	—	4,442	—	—	3,785
Current period (charges) credits to income . . . . .	(1,404)	3,094	105	(2,267)	433	(19,479)	—	—	(19,518)
Other reserves credits (charges) . . . . .	(6,636)	—	—	—	—	—	—	892	(5,744)
Other adjustments . . . . .	—	—	—	169	—	—	—	—	169
	<u>(8,159)</u>	<u>3,094</u>	<u>105</u>	<u>(2,636)</u>	<u>433</u>	<u>(15,037)</u>	<u>2,522</u>	<u>(1,630)</u>	<u>(21,308)</u>
<b>December 31, 2018</b>									
Deferred tax assets . . . . .	1,873	—	—	1,256	6,737	—	—	—	9,866
Deferred tax liabilities . . .	9,379	(3,632)	(780)	7,583	1,037	(35,834)	—	(1,630)	(23,877)
	<u>11,252</u>	<u>(3,632)</u>	<u>(780)</u>	<u>8,839</u>	<u>7,774</u>	<u>(35,834)</u>	<u>—</u>	<u>(1,630)</u>	<u>(14,011)</u>

On December 22, 2017, amendments to the U.S. Federal Income Tax Law were enacted which, among other changes, reduced the top U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. To reflect the lower tax rate, net deferred tax liabilities at December 31, 2017 were reduced by SAR 1,307 with a corresponding benefit to tax expense.

On December 19, 2017, South Korea enacted a 2018 tax reform bill which, among other changes, increased the top corporate tax rate from 24.2% to 27.5% effective January 1, 2018. To reflect the higher income tax rate, net deferred tax liabilities at December 31, 2017 were increased by SAR 303, with a corresponding increase in tax expense.

A deferred income tax liability has not been recognized with regard to the undistributed earnings of certain subsidiaries which are considered to be permanently reinvested in their respective businesses. Such earnings would be taxed only upon distribution. The cumulative amount of the undistributed earnings of such subsidiaries is SAR 31,922 and SAR 50,652 at December 31, 2018 and 2017, respectively, and the unrecognized deferred income tax liability is SAR 3,547 and SAR 3,737 at December 31, 2018 and 2017, respectively.

**(e) Tax assessments**

The Company and its subsidiaries and affiliates are subject to tax review and audit in tax jurisdictions where they operate. In July 2018, the Company and its wholly owned domestic affiliates were notified

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

that the Saudi Arabian income tax submissions for all years up to and including the year ended December 31, 2017 were accepted as filed.

For the Company's other domestic affiliates and international subsidiaries and affiliates, examinations of tax returns for certain prior tax years had not been completed as of December 31, 2018, and the Company is not aware of any significant claims. Therefore, no provision for any additional income tax liability has been made in the consolidated financial statements.

**9. Other assets and receivables**

	<u>2018</u>	<u>2017</u>
<b>Non-current:</b>		
Home loans . . . . .	5,023	4,735
Home ownership construction . . . . .	4,088	2,886
Loans to joint venture and associate (Note 30(b)) . . . . .	2,777	4,652
Finance lease receivable from associate (Note 30(b)) . . . . .	452	465
Derivative assets . . . . .	191	119
Other . . . . .	596	1,262
	<u>13,127</u>	<u>14,119</u>
<b>Current:</b>		
Employee and other receivables . . . . .	3,557	1,196
Prepaid expenses . . . . .	2,984	1,015
Derivative assets . . . . .	2,610	346
Tax receivables . . . . .	2,347	358
Home loans . . . . .	750	718
Investments in securities (Note 10) . . . . .	558	270
Rig mobilization fees . . . . .	398	1,261
Interest receivable . . . . .	171	273
Assets held for sale . . . . .	81	235
Receivables from joint venture and associates (Note 30(b)) . . . . .	71	33
Other . . . . .	248	176
	<u>13,775</u>	<u>5,881</u>

**Home loans**

The home ownership programs provide subsidized non-interest bearing loans to Saudi Arabian employees. Loans are repayable through payroll deductions and are net of associated subsidies. Any balance remaining upon the death, permanent disability or termination of an employee under the Chronic Medical Condition Program is forgiven. An analysis of the home loans balance at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Gross amounts receivable . . . . .	8,470	7,907
Less:		
Discount . . . . .	(1,868)	(1,494)
Allowance for doubtful home loans . . . . .	(480)	(593)
Subsidies . . . . .	(349)	(367)
Net amounts receivable . . . . .	5,773	5,453
<b>Current</b> . . . . .	<u>(750)</u>	<u>(718)</u>
<b>Non-current</b> . . . . .	<u>5,023</u>	<u>4,735</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**10. Investments in securities**

	<u>2018</u>	<u>2017</u>
<b>January 1</b> .....	<b>19,142</b>	17,670
Acquisitions .....	<b>11</b>	—
Net additions .....	<b>490</b>	506
Net unrealized fair value (loss) gain .....	<b>(1,871)</b>	949
Net unrealized foreign currency gain .....	<b>—</b>	17
<b>December 31</b> .....	<b>17,772</b>	19,142
<b>Current (Note 9)</b> .....	<b>(558)</b>	(270)
<b>Non-current</b> .....	<b>17,214</b>	18,872

Net additions include unsettled transactions of SAR (125) at December 31, 2018 (2017: SAR 30). Investments in securities are carried at fair value.

The components of Investments in securities are as follows:

	<u>2018</u>	
	<u>Percentage ownership</u>	<u>Carrying amount as of December 31</u>
<b>Equity investments classified as FVOCI:</b>		
<b>Equity investments—listed securities:</b>		
Saudi Electricity Company (“SEC”) .....	<b>6.9%</b>	<b>4,369</b>
Showa Shell Sekiyu K.K. (“Showa Shell”) .....	<b>15.1%</b>	<b>2,955</b>
<b>Equity investments—unlisted securities:</b>		
Arab Petroleum Pipeline Company (“Sumed”) .....	<b>15.0%</b>	<b>824</b>
Industrialization & Energy Services Company (“TAQA”) .....	<b>4.6%</b>	<b>315</b>
Daehan Oil Pipeline Corporation (“Daehan”) .....	<b>8.9%</b>	<b>154</b>
<b>Investments in debt securities classified as FVOCI:</b>		
U.S. Dollar debt securities with fixed interest rates ranging from 0.7% to 8.8% and maturity dates between January 2019 and February 2051 .....		<b>3,338</b>
U.S. Dollar debt securities with variable interest rates and maturity dates between January 2019 and October 2068 .....		<b>589</b>
		<b>12,544</b>
<b>Equity investments classified as FVPL:</b>		
Listed securities—mutual and hedge funds .....		<b>4,189</b>
Unlisted securities .....		<b>1,039</b>
		<b>17,772</b>
<b>Available-for-sale financial assets:</b>		
<b>Equity investments—listed securities:</b>		
Saudi Electricity Company (“SEC”) .....	6.9%	6,071
Showa Shell Sekiyu K.K. (“Showa Shell”) .....	14.9%	2,869
Mutual and hedge funds .....		4,208
<b>Equity investments—unlisted securities:</b>		
Arab Petroleum Pipeline Company (“Sumed”) .....	15.0%	907
Industrialization & Energy Services Company (“TAQA”) .....	4.6%	247
Daehan Oil Pipeline Corporation (“Daehan”) .....	8.9%	161

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

	2017	
	Percentage ownership	Carrying amount as of December 31
<b>Investments in debt securities:</b>		
U.S. Dollar debt securities with fixed interest rates ranging from 0.6% to 9.8% and maturity dates between January 2018 and February 2048 .....		3,334
U.S. Dollar debt securities with variable interest rates and maturity dates between March 2018 and October 2062 .....		497
		18,294
<b>Financial assets at fair value through profit or loss—unlisted securities .....</b>		848
		19,142

Equity investments designated at FVOCI are not held for trading. Instead they are held for medium to long-term strategic purposes. Accordingly, management has elected to designate these equity investments at FVOCI as recognizing short-term fluctuations in these investments' fair value in net income would not be consistent with Saudi Aramco's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

The fair value of Sumed is based on expected cash flows discounted using a rate based on market interest rates and a risk premium specific to the unlisted security which was 10.6% and 9.8% for the years ended December 31, 2018 and 2017, respectively. The fair value of TAQA is based on an earnings growth factor for unlisted equity securities from market information for similar types of companies. The fair value of Daehan is determined using discounted cash flow analysis based on the risk adjusted yield.

The maximum exposure to credit risk at the reporting date of the investments in debt securities is the fair value. To limit credit risk, Saudi Aramco's investment policy requires that these securities be diversified. Credit ratings for debt securities held at December 31, 2018 range from AAA to BB (2017: AAA to BB) as set out by internationally recognized credit rating agencies.

**11. Inventories**

	2018	2017
Crude oil, refined products and chemicals .....	<b>37,241</b>	28,130
Materials and supplies—net .....	<b>6,130</b>	5,735
Natural gas liquids and other .....	<b>209</b>	148
	<b>43,580</b>	34,013

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

	2018	2017
<b>Balance, January 1 .....</b>	<b>1,911</b>	1,733
Additions to the allowance .....	<b>177</b>	178
<b>Balance, December 31 .....</b>	<b>2,088</b>	1,911

**12. Trade receivables**

Trade receivables from export and local sales are denominated primarily in USD and SAR, respectively.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The components of trade receivables at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Arising from export and local sales at international prices . . . . .	<b>81,662</b>	78,129
Arising from local sales at Kingdom regulated prices . . . . .	<b>12,995</b>	9,619
	<b>94,657</b>	87,748
Less: Allowances arising from local sales at Kingdom regulated prices . . . . .	<b>(839)</b>	(856)
	<b>93,818</b>	86,892

Trade receivables relating to certain contracts with provisional pricing arrangements are measured at fair value. The fair value was calculated using forward curves and future prices. These trade receivables are classified as level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk in the fair value calculation.

As described in Note 2(n), the Government through the Ministry of Finance provided a guarantee to the Company in the event that certain Government and semi-Government agencies are unable to settle within the terms agreed with the Company.

The movement of the allowance for trade receivables related to past due sales is as follows:

	<u>2018</u>	<u>2017</u>
<b>January 1</b> . . . . .	<b>856</b>	818
Net movement in allowance . . . . .	<b>(17)</b>	38
<b>December 31</b> . . . . .	<b>839</b>	856

**13. Due from the Government**

	<u>2018</u>	<u>2017</u>
Amounts due from other income related to sales (Note 2(w)) . . . . .	<b>35,268</b>	38,717
Amounts due under Government Guarantee (Note 2(n)) . . . . .	<b>12,872</b>	274
Note 30(b) . . . . .	<b>48,140</b>	38,991

**14. Short-term investments**

	<u>2018</u>	<u>2017</u>
South Korean Won time deposits . . . . .	<b>154</b>	5,999
SAR time deposits . . . . .	<b>40</b>	80
USD time deposits . . . . .	<b>—</b>	105
	<b>194</b>	6,184

**15. Cash and cash equivalents**

	<u>2018</u>	<u>2017</u>
Cash at bank and in hand . . . . .	<b>31,015</b>	21,058
USD time deposits . . . . .	<b>146,886</b>	53,771
South Korean Won time deposits . . . . .	<b>2,206</b>	1,328
USD murabaha time deposits (Shari'a compliant) . . . . .	<b>1,440</b>	3,677
SAR time deposits . . . . .	<b>1,277</b>	747
SAR repurchase agreements . . . . .	<b>328</b>	661
	<b>183,152</b>	81,242

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**16. Other reserves**

	Currency translation adjustment	Investments in securities at FVOCI	Fair value adjustment of available-for-sale financial assets	Post-employment benefit obligations	Cash flow hedges and other	Share of other comprehensive income (loss) of joint ventures and associates		Total
						Post-employment benefit obligations and other	Foreign currency translation (losses) gains	
<b>January 1, 2017</b> .....	(1,269)	—	1,424	—	(56)	52	(23)	128
Current period change .....	3,333	—	924	—	(169)	(205)	661	4,544
Remeasurement gain .....	—	—	—	7,597	—	3	—	7,600
Transfer to retained earnings .....	—	—	—	11,726	—	(3)	—	11,723
Tax effect .....	—	—	2,144	(19,311)	—	—	—	(17,167)
Less: amounts related to non-controlling interests .....	(1,266)	—	—	(12)	120	—	—	(1,158)
<b>December 31, 2017</b> .....	798	—	4,492	—	(105)	(153)	638	5,670
Reclassified to investments in securities at FVOCI .....	—	4,492	(4,492)	—	—	—	—	—
Current period change .....	(1,110)	(2,547)	—	—	36	157	(440)	(3,904)
Remeasurement gain .....	—	82	—	13,556	—	—	—	13,638
Transfer to retained earnings .....	—	—	—	(6,822)	—	—	—	(6,822)
Tax effect .....	—	892	—	(6,755)	—	—	—	(5,863)
Less: amounts related to non-controlling interests .....	441	—	—	21	(5)	—	—	457
<b>December 31, 2018</b> .....	129	2,919	—	—	(74)	4	198	3,176

**17. Borrowings**

	2018	2017
<b>Non-current:</b>		
Borrowings .....	25,934	29,181
Debentures .....	17,014	20,735
Sukuk (Shari'a compliant) .....	12,821	13,001
Finance lease liabilities .....	12,329	4,641
Other <sup>(1)</sup> .....	3,231	1,134
	<u>71,329</u>	<u>68,692</u>
<b>Current:</b>		
Short-term bank financing .....	23,174	4,857
Borrowings .....	5,906	3,579
Sukuk (Shari'a compliant) .....	180	157
Finance lease liabilities .....	729	313
	<u>29,989</u>	<u>8,906</u>
<b>Finance costs:</b>		
Conventional borrowing .....	1,576	657
Finance lease liabilities .....	480	500
Shari'a compliant financial instruments .....	593	625
Unwinding of discount (Note 19) .....	310	308
	<u>2,959</u>	<u>2,090</u>

(1) Other borrowings are comprised of loans from non-financial institutions under commercial terms.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**Borrowing facilities:**

Saudi Aramco has entered into long-term financing arrangements with various lenders. These financing arrangements limit the creation of additional liens and/or financing obligations and certain of these arrangements are secured over certain property, plant and equipment of Saudi Aramco with a carrying value of SAR 39,699 (2017: SAR 39,427). Additionally, certain financing arrangements require compliance by Saudi Aramco with covenants to maintain certain financial and other conditions. Saudi Aramco has complied with these covenants throughout the reporting period.

Details of financing facilities at December 31 are as follows:

	Note	Total facility		Total undrawn	
		2018	2017	2018	2017
Revolving credit facilities . . . . .	a	<b>47,677</b>	48,825	<b>47,677</b>	48,825
Sukuk (Shari'a compliant) . . . . .	b	<b>39,844</b>	39,844	<b>26,250</b>	26,250
Short-term borrowings . . . . .	c	<b>33,840</b>	24,578	<b>10,928</b>	19,721
Commercial and other . . . . .	d	<b>28,968</b>	28,031	<b>3,263</b>	4,605
Export credit agencies . . . . .	e	<b>13,854</b>	13,854	<b>7,500</b>	7,500
Public Investment Fund . . . . .	f	<b>4,594</b>	4,594	—	—
Saudi Industrial Development Fund (Shari'a compliant) . . . . .	g	<b>3,248</b>	1,249	—	—
Procurement (Shari'a compliant) . . . . .	h	<b>2,528</b>	2,528	—	—
Wakala (Shari'a compliant) . . . . .	i	<b>821</b>	821	—	—
		<b>175,374</b>	164,324	<b>95,618</b>	106,901

**(a) Revolving credit facilities**

At December 31, 2018, Saudi Aramco held facilities that total SAR 47,677 (2017: SAR 48,825) consisting of:

- (i) The Company maintains USD denominated conventional five-year \$6,000 (SAR 22,500) and a \$1,000 (SAR 3,750) 364-day facility along with a SAR denominated Islamic murabaha five-year facility in the amount of SAR 7,500 and a SAR 3,750 364-day facility. Both of the five-year facilities were established in March 2015 and are fully available through the end of the fifth year and each can be extended twice for an additional one year period for a maximum of seven years if the extension options are exercised. The credit facility documentation provides for certain limits on the creation of liens on or other security interests in the assets of the Company, and on the sale, lease or transfer, of its assets to third parties.
- (ii) Saudi Aramco subsidiaries maintain facilities of SAR 10,177 (2017: SAR 11,325), of which two one-year facilities were acquired with Motiva (Note 31(c)(ii)), a letter of credit facility of \$600 (SAR 2,250) and a revolving credit facility of \$1,500 (SAR 5,625) for working capital requirements and to support trading activities. Both are expected to be renewed in 2019. The remaining revolving credit facilities are executed with a group of foreign and domestic banks for general corporate purposes and working capital requirements.

**(b) Sukuk (Shari'a compliant)**

A sukuk is a financial instrument similar to a bond that complies with Islamic financing principles.

- (i) On April 10, 2017, Saudi Aramco issued a sukuk for SAR 11,250 at par value as part of a SAR 37,500 program. The sukuk issuance provides a return based on Saudi Arabian Interbank Offered Rate (SAIBOR) plus a pre-determined margin payable semi-annually on April 10 and October 10. The sukuk matures on April 10, 2024. In accordance with the terms of the sukuk, 51% of the proceeds from issuance are invested in mudaraba assets and the remaining 49% are used in a murabaha arrangement.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

- (ii) On October 9, 2011, Saudi Aramco issued a sukuk for SAR 2,344 at par value with semi-annual payments from December 20, 2014 to December 20, 2025 that provides a rate of return above SAIBOR. The sukuk was structured as Istisnah for pre-construction and Ijara for post-construction of the project.
- (c) **Short-term borrowings**
- (i) **Bridge loan facility**
- Saudi Aramco has facility agreements with 19 banks in the amount of SAR 15,000 for bridge loans that are calculated at a market rate plus a margin and are expected to be converted to long-term debt in 2019.
- (ii) Saudi Aramco has facilities with a number of banks for short-term borrowing with each borrowing less than one year and drawing interest at market rates plus a margin.
- (d) **Commercial and other**
- Saudi Aramco has commercial and other facility agreements with a number of banks. The facilities are primarily repayable in twelve to twenty-three installments on a semi-annual basis from June 15, 2014 to December 20, 2025. Commission is payable on amounts drawn that are mainly calculated at a market rate plus a margin.
- (e) **Export credit agencies**
- (i) **UK Export Finance facility**
- On October 11, 2017, Saudi Aramco entered into a USD denominated facility in the amount of \$2,000 (SAR 7,500) with five commercial banks which is guaranteed by UK Export Finance. The facility expires during 2019 with repayments on borrowings for five years with a margin based on LIBOR. No drawdowns have been made as of December 31, 2018.
- (ii) **Other Export Credit Agencies**
- Saudi Aramco has facility agreements with six export credit agencies. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.
- (f) **Public Investment Fund**
- Saudi Aramco has facility agreements with the Saudi Public Investment Fund. The facilities are repayable in fourteen to twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.
- (g) **Saudi Industrial Development Fund (Shari'a compliant)**
- Saudi Aramco has facility agreements with the Saudi Industrial Development Fund. The facilities bear no periodic financial charges and borrowings are repayable in twelve to fourteen unequal installments on a semi-annual basis according to the Hijri calendar commencing from 15 Sha'aban 1437 H (May 22, 2016) to 15 Safar 1452 (June 17, 2030).
- (h) **Procurement (Shari'a compliant)**
- Saudi Aramco has Shari'a compliant Islamic Facility Agreements with a number of banks. The facilities are repayable in twenty-three unequal installments on a semi-annual basis commencing



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus margin.

**(i) Wakala (Shari'a compliant)**

Saudi Aramco has Shari'a compliant Islamic Facility Agreements ("IFAs") with two lenders. The IFAs utilize a wakala financing structure which is an agency arrangement. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

At the Consolidated Balance Sheet date, the carrying values of Saudi Aramco's non-current borrowings approximate their fair values.

The carrying amounts of non-current borrowings at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Commercial and other .....	<b>19,428</b>	20,966
Sukuk (Shari'a compliant) .....	<b>13,009</b>	13,166
Export credit agencies .....	<b>4,230</b>	4,683
Public Investment Fund .....	<b>3,341</b>	3,765
Saudi Industrial Development Fund (Shari'a compliant) .....	<b>2,778</b>	960
Procurement .....	<b>1,901</b>	2,070
Wakala .....	<b>615</b>	672
Other .....	<b>3,231</b>	1,134
	<b>48,533</b>	47,416
Less: unamortized transaction costs .....	<b>(461)</b>	(364)
	<b>48,072</b>	47,052
Debentures denominated in USD .....	<b>8,479</b>	11,333
Debentures denominated in Korean Won .....	<b>8,535</b>	9,402
	<b>65,086</b>	67,787
Less: current portion .....	<b>(6,086)</b>	(3,736)
Non-current portion .....	<b>59,000</b>	64,051

Debentures denominated in USD are issued in public capital markets. Interest rates are fixed and variable with maturities that range between 2027 and 2040.

Debentures denominated in Korean Won are issued in public capital markets. Interest rates range from 1.6% to 3.5% with maturities beginning in 2019 through 2027.

Movements in unamortized transaction costs are as follows:

	<u>2018</u>	<u>2017</u>
<b>January 1</b> .....	<b>364</b>	417
Additional transaction costs incurred .....	<b>157</b>	—
Less: amortization .....	<b>(60)</b>	(53)
<b>December 31</b> .....	<b>461</b>	364

Maturities at carrying values of long-term borrowings are as follows:

	<u>2018</u>	<u>2017</u>
No later than one year .....	<b>6,086</b>	3,736
Later than one year and no later than five years .....	<b>26,183</b>	29,736
Later than five years .....	<b>33,278</b>	34,679
	<b>65,547</b>	68,151

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Maturities at contractual values of long-term borrowings are as follows:

	<u>2018</u>	<u>2017</u>
No later than one year . . . . .	<b>6,946</b>	5,006
Later than one year and no later than five years . . . . .	<b>28,931</b>	36,694
Later than five years . . . . .	<b>41,163</b>	40,175
	<u><b>77,040</b></u>	<u>81,875</u>

**Finance lease liabilities**

Covenants of certain long-term financing facilities require Saudi Aramco to maintain defined financial and other conditions. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The lessor has ownership of the assets during the term of the contract and is responsible for the operation, insurance and maintenance of the assets until termination of the underlying agreements. For certain leases, the lessor shall transfer its rights, title and interest in the assets to the lessee on the last day of the agreements, for others, there are no further obligations on completion of agreements. Performance guarantees are provided by the lessor under the terms of the agreements.

During the year, Saudi Aramco recorded a 25 year finance lease in the amount of SAR 7,965 for capital assets located at a Downstream facility that is under construction. The lease terms include a monthly variable payment with a purchase option at 20 years and an option to extend the lease for another 5 years, at which point ownership transfers to the Company.

The gross finance lease obligation (minimum lease payments) and related future finance charges of finance lease liabilities at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
No later than one year . . . . .	<b>1,655</b>	774
Later than one year and no later than five years . . . . .	<b>5,601</b>	3,035
Later than five years . . . . .	<b>15,711</b>	4,517
	<u><b>22,967</b></u>	<u>8,326</u>
Future finance charges on finance leases . . . . .	<b>(9,909)</b>	(3,372)
	<u><b>13,058</b></u>	<u>4,954</u>

The present value of finance lease liabilities at December 31 is as follows:

	<u>2018</u>	<u>2017</u>
No later than one year . . . . .	<b>729</b>	313
Later than one year and no later than five years . . . . .	<b>2,463</b>	1,499
Later than five years . . . . .	<b>9,866</b>	3,142
	<u><b>13,058</b></u>	<u>4,954</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The movement of borrowings was as follows:

	<u>Long-term borrowings</u>	<u>Short-term borrowings</u>	<u>Finance lease liabilities</u>	<u>Total liabilities from financing activities</u>
<b>January 1, 2017</b> .....	39,836	5,551	7,072	52,459
Cash flows .....	11,540	(2,170)	(446)	8,924
Non-cash changes:				
Acquisitions (Note 31) .....	11,366	856	251	12,473
Foreign exchange adjustment .....	1,271	631	—	1,902
Others .....	<u>3,774</u>	<u>(11)</u>	<u>(1,923)</u>	<u>1,840</u>
<b>December 31, 2017</b> .....	67,787	4,857	4,954	77,598
Cash flows .....	<b>(3,083)</b>	<b>3,986</b>	<b>(339)</b>	<b>564</b>
Non-cash changes:				
Acquisitions (Note 31) .....	—	<b>14,331</b>	<b>248</b>	<b>14,579</b>
Finance lease additions (Note 23(b)) .....	—	—	<b>8,195</b>	<b>8,195</b>
Foreign exchange adjustment .....	<b>(540)</b>	—	—	<b>(540)</b>
Others .....	<u>922</u>	<u>—</u>	<u>—</u>	<u>922</u>
<b>December 31, 2018</b> .....	<b>65,086</b>	<b>23,174</b>	<b>13,058</b>	<b>101,318</b>

**18. Post-employment benefit obligations**

Saudi Aramco sponsors several funded and unfunded defined benefit pension plans and other post-employment benefit plans that provide pension, severance, death, medical and/or other benefits to substantially all of its employees primarily in Saudi Arabia. Majority of the defined benefit plans for Saudi Arabia based employees are governed under the Kingdom of Saudi Arabia employment law, Pension Protection Act (PPA) rules of the USA, and Company policies. Benefits to employees of group companies are provided based on local regulations and practices of the respective jurisdiction.

Retirement benefits for defined benefit pension plans are paid, primarily, in the form of lump sum payments upon retirement based on final salary and length of service. Other post-employment benefits such as medical are used to cover retired employees and eligible dependents of retirees for medical services in line with the plan policy documents.

At December 31, the net liability recognized for employee defined benefit plans in the Consolidated Balance Sheet is as follows:

	<u>2018</u>	<u>2017</u>
Pension plans .....	<b>(1,080)</b>	1,111
Medical and other post-employment benefit plans .....	<b>24,289</b>	37,080
<b>Net benefit liability</b> .....	<b>23,209</b>	38,191

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

	Pension benefits		Other benefits	
	2018	2017	2018	2017
<b>Net benefit obligation by funding:</b>				
Present value of funded obligations .....	52,023	50,454	78,548	92,175
Fair value of plan assets .....	(58,376)	(53,726)	(60,758)	(61,661)
<b>Benefit (surplus)/deficit .....</b>	<b>(6,353)</b>	<b>(3,272)</b>	<b>17,790</b>	<b>30,514</b>
Present value of unfunded obligations .....	5,273	4,383	6,499	6,566
<b>Net benefit (asset)/liability .....</b>	<b>(1,080)</b>	<b>1,111</b>	<b>24,289</b>	<b>37,080</b>
<b>Change in benefit obligations:</b>				
Benefit obligations, January 1 .....	54,837	49,838	98,741	93,803
Current service cost .....	3,270	2,865	2,303	2,123
Interest cost .....	2,010	2,039	3,698	4,005
Past service cost .....	(4)	176	(1,016)	187
Remeasurement .....	(3,280)	2,664	(17,431)	(158)
Plan participants' contribution .....	113	116	—	—
Benefits paid .....	(3,330)	(3,450)	(1,725)	(1,639)
Settlements .....	—	(848)	—	—
Acquisitions (Note 31) .....	3,668	1,395	109	278
Foreign currency translation and other .....	12	42	368	142
<b>Benefit obligations, December 31 .....</b>	<b>57,296</b>	<b>54,837</b>	<b>85,047</b>	<b>98,741</b>
<b>Change in plan assets:</b>				
Fair value of plan assets January 1 .....	(53,726)	(44,989)	(61,661)	(51,867)
Interest income .....	(1,905)	(1,781)	(2,378)	(2,201)
Remeasurement .....	195	(6,173)	6,960	(3,930)
Employer contributions .....	(3,330)	(4,247)	(5,404)	(5,302)
Benefits paid .....	3,330	3,450	1,725	1,639
Settlements .....	—	848	—	—
Acquisitions (Note 31) .....	(3,023)	(690)	—	—
Foreign currency translation and other .....	83	(144)	—	—
<b>Fair value of plan assets, December 31 .....</b>	<b>(58,376)</b>	<b>(53,726)</b>	<b>(60,758)</b>	<b>(61,661)</b>
<b>Net benefit (asset)/liability at December 31 .....</b>	<b>(1,080)</b>	<b>1,111</b>	<b>24,289</b>	<b>37,080</b>

The weighted average duration of the pension benefit obligations is 11 years at December 31, 2018 and 12 years at December 31, 2017. The weighted average duration of the other benefit obligations is 19 years at December 31, 2018 and 21 years at December 31, 2017.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The components of net defined benefit cost, before tax, are primarily recognized in producing and manufacturing, and selling, administrative and general expenses in the Consolidated Statement of Income. Remeasurements are included in the Consolidated Statement of Comprehensive Income. Net defined benefit cost and remeasurements for the years ended December 31 are as follows:

	<u>Pension benefits</u>		<u>Other benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Amounts recognized in net income:</b>				
Current service cost .....	<b>3,270</b>	2,865	<b>2,303</b>	2,123
Past service cost .....	<b>(4)</b>	176	<b>(1,016)</b>	187
Net interest cost .....	<b>105</b>	258	<b>1,320</b>	1,804
Other .....	<b>(11)</b>	—	<b>360</b>	—
	<b><u>3,360</u></b>	<b><u>3,299</u></b>	<b><u>2,967</u></b>	<b><u>4,114</u></b>
<b>Amounts recognized in other comprehensive income:</b>				
Losses (gains) from changes in demographic assumptions . . . .	<b>83</b>	439	<b>(19)</b>	(2,194)
(Gains) losses from changes in financial assumptions . . . . .	<b>(4,316)</b>	2,246	<b>(12,578)</b>	8,936
Losses (gains) from changes in experience adjustments . . . . .	<b>953</b>	(21)	<b>(4,834)</b>	(6,900)
Losses (returns) on plan assets (excluding interest income) . . .	<b>195</b>	(6,173)	<b>6,960</b>	(3,930)
	<b><u>(3,085)</u></b>	<b><u>(3,509)</u></b>	<b><u>(10,471)</u></b>	<b><u>(4,088)</u></b>
Net defined benefit loss (gain) before income taxes .....	<b>275</b>	(210)	<b>(7,504)</b>	26

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, based in part on market conditions. Any changes in these assumptions will impact the carrying amount of the defined benefit obligations.

The significant assumptions used to determine the present value of the defined benefit obligations for the years ended December 31 are as follows:

	<u>Pension benefits</u>		<u>Other benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Discount rate .....	<b>4.3%</b>	3.5%	<b>4.4%</b>	3.7%
Salary growth rate .....	<b>5.5%</b>	5.4%	—	—
SAR annual average medical claim cost .....			<b>22,350</b>	20,936
Health care participation rate .....			<b>90%</b>	90%
Assumed health care trend rates:				
Cost-trend rate .....			<b>7.0%</b>	8.0%
Rate to which cost-trend is to decline .....			<b>5.0%</b>	5.0%
Year that the rate reaches the ultimate rate .....			<b>2021</b>	2021

All of the above assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the defined benefit obligations.

Saudi Aramco determines the discount rate used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit plan obligations. In determining the appropriate discount rate, Saudi Aramco considers the interest rates of high-quality corporate bonds in the United States that have terms to maturity approximating the terms of the related defined benefit obligation.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Mortality assumptions are reviewed regularly and set based on actuarial advice in accordance with best practice and statistics, adjusted to reflect the experience and improvements to longevity. Relevant life expectancies are as follows:

<u>Life expectancy at age:</u>	<u>Saudi Plans</u>		<u>U.S. Plans</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50 .....	31.6	34.7	34.2	36.9
60 .....	23.0	25.7	25.0	27.2
60 (currently aged 40) .....	23.0	25.7	26.8	29.0

The salary growth rate assumption is based on a study of recent years' salary experience and reflects management's outlook for future increases. The annual average medical claim cost assumption is based on medical costs incurred in external medical providers, on behalf of the Company's employees and retirees. The health care participation rate considers the historical participation rate, amongst others, derived from the best available historical data. The assumed health care cost-trend rates reflect Saudi Aramco's historical experience and management's expectations regarding future trends.

The sensitivity of the overall defined benefit obligations to changes in the principal assumptions, keeping all other assumptions constant, is presented below. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

	<u>Change in Assumption</u>	<u>Impact on obligation</u>	<u>2018</u>	<u>2017</u>
Ultimate health care cost-trend rates .....	Increase by 0.5%	Increase by	<b>8,066</b>	10,129
	Decrease by 0.5%	Decrease by	<b>(7,095)</b>	(8,801)
Discount rate other benefits .....	Increase by 0.5%	Decrease by	<b>(7,463)</b>	(9,368)
	Decrease by 0.5%	Increase by	<b>8,569</b>	10,785
Discount rate pension benefits .....	Increase by 0.5%	Decrease by	<b>(3,011)</b>	(2,914)
	Decrease by 0.5%	Increase by	<b>3,315</b>	3,233
Salary growth rate .....	Increase by 0.5%	Increase by	<b>1,433</b>	1,421
	Decrease by 0.5%	Decrease by	<b>(1,646)</b>	(1,691)
Annual average medical claim cost .....	Increase by 5%	Increase by	<b>3,904</b>	4,688
	Decrease by 5%	Decrease by	<b>(3,896)</b>	(4,680)
Life expectancy .....	Increase by 1 year	Increase by	<b>3,371</b>	5,280
	Decrease by 1 year	Decrease by	<b>(3,383)</b>	(5,340)
Health care participation rate .....	Increase by 5%	Increase by	<b>1,560</b>	1,571
	Decrease by 5%	Decrease by	<b>(1,635)</b>	(1,676)

**Plan assets at December 31 consisted of the following:**

	<u>2018</u>	<u>2017</u>
Cash .....	<b>3,008</b>	2,610
Time deposits .....	<b>68</b>	2,107
Equity instruments .....	<b>34,433</b>	42,608
Investment funds .....	<b>42,045</b>	34,097
Bonds .....	<b>38,520</b>	33,178
Sukuk (Shari'a compliant) .....	<b>1,060</b>	787
	<b>119,134</b>	115,387

Plan assets are administered under the oversight of the Company and are held and managed by independent trustees or separate entities, in a manner consistent with fiduciary obligations and principles, acting in the best interest of plan participants. The Company is responsible for the implementation of Board approved

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

investment policy and making investment recommendations to the legal entities holding the plan assets. The investment objective is to maximize investment returns consistent with prudent risk over a long-term investment horizon in order to secure retiree benefits and minimize corporate funding. Plan assets are held separately, solely to pay retiree benefits, with no recourse to Saudi Aramco. Funded Saudi Plans have the right to transfer assets held in excess of the Plan's defined benefit obligation to another funded Saudi Plan. The right to transfer such assets is solely in respect of amounts held in excess of the Plan's defined benefit obligations and solely to Plans with defined benefit obligations exceeding the value of assets held.

Through its post-employment benefit plans, Saudi Aramco is exposed to a number of risks including asset volatility, changes in bond yields, inflation and life expectancy. Investment risk is minimized through diversification of investments among fixed income, equity, and alternative asset classes. Asset allocation is determined by an asset liability modeling study. The target asset allocation is, approximately, 36% (2017: 41%) for equity instruments, 32% (2017: 33%) for debt instruments, and 32% (2017: 26%) for alternative assets. Inflation risk is partially offset by equities inflation and life expectancy risk is borne by Saudi Aramco.

While the Saudi plans are generally not governed by regulatory minimum funding requirements, the funding objective is to reach full funding of the larger plans only. Saudi Aramco meets the obligation of the unfunded plans as they fall due. Benefit payments for the Saudi plans are paid from Corporate cash and are expected to be SAR 4,377 for 2019. Funding for the U.S. plans is recommended by the actuary in order to meet Saudi Aramco's funding strategy to meet benefit plan expenses (estimated at SAR 375 for 2019) using Pension Protection Act (PPA) rules. No discretionary cash contribution to the plans is expected in 2019.

In addition to the above plans, Saudi Aramco maintains defined contribution plans for which Saudi Aramco's legal or constructive obligation for these plans is limited to the contributions. The costs of the defined contribution plans, which are included principally within producing and manufacturing, and selling, administrative and general expenses in the Consolidated Statement of Income, are SAR 926 and SAR 861 for the years ended December 31, 2018 and 2017, respectively.

**19. Provisions**

	<u>Asset retirement</u>	<u>Environmental</u>	<u>Other</u>	<u>Total</u>
<b>January 1, 2017</b> .....	8,032	1,088	278	9,398
Revision to estimate .....	3,129	(303)	—	2,826
Additional provisions .....	739	270	883	1,892
Unwinding of discount (Note 17) .....	282	26	—	308
Amounts charged against provisions .....	<u>(48)</u>	<u>(285)</u>	<u>(94)</u>	<u>(427)</u>
<b>December 31, 2017</b> .....	12,134	796	1,067	13,997
Revision to estimate .....	<b>886</b>	—	<b>(234)</b>	<b>652</b>
Additional provisions .....	<b>418</b>	<b>177</b>	<b>308</b>	<b>903</b>
Unwinding of discount (Note 17) .....	<b>320</b>	<b>(10)</b>	—	<b>310</b>
Amounts charged against provisions .....	<u><b>(51)</b></u>	<u><b>(114)</b></u>	<u><b>(91)</b></u>	<u><b>(256)</b></u>
<b>December 31, 2018</b> .....	<u><b>13,707</b></u>	<u><b>849</b></u>	<u><b>1,050</b></u>	<u><b>15,606</b></u>

These provisions consist primarily of asset retirement provisions for the future plugging and abandonment of oil and natural gas wells and the decommissioning of certain Downstream assets. The environmental provision is for the remediation of ground water and soil contamination. Payments to settle these provisions will occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 50 years for the time when it is necessary to abandon oil and natural gas wells. The amount and timing of settlement in respect of these provisions are uncertain and dependent on various factors that are not always within management's control.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**20. Trade and other payables**

	<u>2018</u>	<u>2017</u>
Trade payables . . . . .	32,897	28,834
Accrued materials and services . . . . .	26,393	22,560
Amounts due to related parties (Note 30(b)) . . . . .	6,761	6,795
Other accruals . . . . .	6,235	3,866
	<u>72,286</u>	<u>62,055</u>

**21. Revenue**

	<u>2018</u>	<u>2017</u>
Revenue from contracts with customers . . . . .	1,180,726	834,312
Movement between provisional and final prices . . . . .	(2,270)	2,568
Other revenue . . . . .	3,681	3,603
	<u>1,182,137</u>	<u>840,483</u>
Other revenue:		
Services provided to:		
Government agencies (Note 30(a)) . . . . .	731	1,076
Third parties . . . . .	626	1,065
Joint ventures and associates (Note 30(a)) . . . . .	311	435
Freight . . . . .	101	64
Other . . . . .	1,912	963
	<u>3,681</u>	<u>3,603</u>

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 10 to 90 days from the invoice date depending on specific terms of the contract.

Transaction prices are not adjusted for the time value of money as Saudi Aramco does not expect to have any contracts where the period between the transfer of product to the customer and payment by the customer exceeds one year.

**Disaggregation of revenue from contracts with customers**

Saudi Aramco's revenue from contracts with customers according to product type and source is as follows:

	2018			
	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Total</u>
Crude oil . . . . .	707,400	8,268	—	715,668
Refined and chemical products . . . . .	371	392,882	—	393,253
Natural gas and NGLs . . . . .	69,649	2,156	—	71,805
<b>Revenue from contracts with customers</b> . . . . .	<b>777,420</b>	<b>403,306</b>	<b>—</b>	<b>1,180,726</b>
Movement between provisional and final prices . . . . .	(1,756)	(514)	—	(2,270)
Other revenue . . . . .	569	1,783	1,329	3,681
<b>External revenue</b> . . . . .	<b>776,233</b>	<b>404,575</b>	<b>1,329</b>	<b>1,182,137</b>



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

	2017			
	Upstream	Downstream	Corporate	Total
Crude oil .....	512,691	11,382	—	524,073
Refined and chemical products .....	425	250,897	—	251,322
Natural gas and NGLs .....	57,805	1,112	—	58,917
<b>Revenue from contracts with customers</b> .....	<b>570,921</b>	<b>263,391</b>	<b>—</b>	<b>834,312</b>
Movement between provisional and final prices .....	2,503	65	—	2,568
Other revenue .....	596	1,797	1,210	3,603
<b>External revenue</b> .....	<b>574,020</b>	<b>265,253</b>	<b>1,210</b>	<b>840,483</b>

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

	2018	2017
Crude oil .....	<b>1,847</b>	2,646
Refined and chemical products .....	<b>55,790</b>	31,823
Natural gas and NGLs .....	<b>16,037</b>	15,680
	<b>73,674</b>	50,149

**22. Finance and other income**

	2018	2017
Interest income on time deposits and loans receivable .....	<b>2,777</b>	1,144
Investment income .....	<b>63</b>	73
Gain on disposal of previous equity investment in ARLANXEO (Note 31(c)(i)) .....	<b>870</b>	—
Dividend income .....	<b>143</b>	141
Gain on derivative transactions .....	<b>4</b>	202
Other .....	<b>8</b>	9
	<b>3,865</b>	1,569

**23. Non-cash and settlement transactions in the Consolidated Statement of Cash Flows**

**(a) Settlement transactions**

In 2017, the Government and the Company established settlement arrangements for other income related to sales and receivables from specified Government and semi-Government agencies. As a result of these arrangements, during the year ended December 31, 2018, an amount due from the Government of SAR 167,752 (2017: SAR 64,410) was settled by offset against income tax obligations of SAR 167,752 (2017: SAR 56,197) (Note 8(c)) and royalty obligations of nil (2017: SAR 8,213). For the year ended December 31, 2017, cash used in financing activities includes settlement of an amount due from the Government of SAR 56,558 through an additional distribution to the Government.

**(b) Other transactions**

Other investing activities includes SAR 2,498 of subordinated shareholder loans with a joint venture that were converted to equity during 2018 (2017: SAR 1,796 converted to equity), SAR 8,195 of finance leases entered into in 2018 (2017: SAR 3,901), and asset retirement provisions of SAR 1,533 (2017: SAR 3,591).

**24. Commitments**

**(a) Capital commitments**

Capital expenditures contracted for but not yet incurred are SAR 90,034 and SAR 101,813 at December 31, 2018 and 2017, respectively.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(b) Operating leases**

Saudi Aramco leases drilling rigs, tankers, real estate, transportation equipment, light industrial equipment and office equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. Terms of the agreements vary but typically include provisions allowing cancellation, after notice, within six months. Rates are generally fixed at the contract date. The approximate minimum payments for non-cancellable operating leases at December 31 are:

	<b>2018</b>	<b>2017</b>
No later than one year . . . . .	<b>8,078</b>	7,160
Later than one year and no later than five years . . . . .	<b>15,625</b>	10,347
Later than five years . . . . .	<b>11,862</b>	4,079
	<b>35,565</b>	21,586

**(c) International Maritime Industries (“IMI”)**

In 2017, Saudi Aramco Development Company (“SADCO”), a wholly owned subsidiary of the Company, and Lamprell plc (“Lamprell”), Bahri and Hyundai Heavy Industries (“HHI”) formed a company, IMI, in which SADCO owns 50.1%, Lamprell owns 20%, Bahri owns 19.9% and HHI owns 10%. The principal activities of IMI are the development, operation, and maintenance of a maritime yard under construction by the Government, as well as, the design, manufacture, maintenance and repair of ships and rigs. The maritime yard will be divided into four main zones and completion of the construction of the individual zones will vary but is expected to be fully completed and operational by 2021. SADCO has committed to fund IMI up to SAR 1,316 through equity contributions. At December 31, 2018, SAR 555 has been drawn down by IMI.

**(d) Saudi Aramco Rowan Offshore Drilling Company (“ARO Drilling”)**

In 2017, SADCO and Rowan Rex Limited formed a company, ARO Drilling (Note 33), to provide offshore drilling services to the Company. Saudi Aramco has committed to invest SAR 2,494 at December 31, 2017 through equity and shareholder loans, of which, SAR 2,453 (2017: SAR 1,436) has been drawn down. In addition, Saudi Aramco has committed to lease 20 offshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 52,489.

**(e) Saudi Aramco Nabors Drilling Company (“SANAD”)**

In 2017, SADCO and Nabors International Netherlands BV formed a company, SANAD (Note 33), to provide onshore drilling services to the Company. Saudi Aramco has committed to invest SAR 1,553 at December 31, 2017 through equity and shareholder loans, of which, SAR 1,553 has been drawn down. In addition, Saudi Aramco has committed to lease 50 onshore rigs over a ten-year period beginning in 2019 for an estimated value of SAR 24,263.

**(f) Arabian Rig Manufacturing Company (“ARM”)**

In June 2018, SADCO and NOV Downhole Eurasia Limited formed a company, ARM (Note 33), to provide onshore land drilling manufacturing, equipment and services to SANAD and the Middle East and North Africa region at large. Saudi Aramco has committed to invest SAR 225. In addition, SADCO has guaranteed the purchase of 50 onshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 6,754, and has the option to cancel the onshore rig orders for a maximum financial exposure of SAR 1,358.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(g) Other**

- (i) In order to comply with a Government directive, Saudi Aramco expects to at a future date sell portions of its equity in Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. (Note 34) through a public offering of shares in Saudi Arabia. Also, in order to comply with a Government directive, Excellent Performance Chemical Company (“EPCC”), a wholly owned subsidiary of Saudi Aramco, expects to at a future date to sell portions of its equity in Sadara (Note 25(a)) through a public offering of shares in Saudi Arabia.
- (ii) Saudi Aramco is committed to comply with the Government directive to guarantee that Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. shall spend a total of SAR 469 over a ten year period ending December 31, 2025 on social responsibility programs. At December 31, 2018, SAR 420 remains to be spent.
- (iii) Saudi Aramco has commitments of SAR 370 (2017: SAR 395) to invest in private equity investments both inside and outside the Kingdom. Such commitments can be called on demand.
- (iv) Saudi Aramco has commitments of SAR 56 (2017: SAR 81) to fund additional loans and acquire additional unlisted equity investments of certain small to mid-sized enterprises in the Kingdom. The commitments can be called by the enterprises upon meeting certain conditions.

**25. Contingencies**

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

Saudi Aramco also has contingent liabilities with respect to the following:

**(a) Sadara**

In 2011, EPCC and Dow Saudi Arabia Holding B.V. (together to be referred to as the “Founding Shareholders”) signed a shareholder agreement with a term of 99 years to construct and operate a fully-integrated chemicals complex at Jubail II Industrial City in Saudi Arabia (“the Project”). Shortly thereafter, the Founding Shareholders formed Sadara to execute the Project. At December 31, 2018, Saudi Aramco has committed to provide a total financing facility of SAR 25,125 (2017: SAR 25,125) comprised of a shareholder loan and share capital commitment of which SAR 25,125 (2017: SAR 25,125) has been drawn down.

In 2013, Sadara entered into definitive agreements with certain export credit agencies and commercial banks for approximately SAR 39,505 (2017: SAR 39,505) of project financing of which approximately SAR 36,566 (2017: SAR 37,875) was outstanding at December 31, 2018. Saudi Aramco provided guarantees for 65% of such facilities, which will be released upon declaration of project completion on or before December 31, 2020. In December 2018, Sadara successfully satisfied all requirements of the Creditor’s Reliable Test (“CRT”) in its initial attempt. Completion of the CRT is, among other conditions, a key condition to achieve project completion.

In 2013, Sadara conducted a project sukuk issuance in Saudi Arabia for approximately SAR 7,500 with a final maturity in December 2028. Saudi Aramco provided a guarantee for 65% of the sukuk on a limited recourse basis, which may be called at any time, upon the occurrence of certain trigger events prior to the project completion date. The sukuk proceeds were utilized for funding the Project of which approximately SAR 7,178 (2017: SAR 7,500) was outstanding at December 31, 2018.

With respect to Sadara’s fuel and feed-stock allocation, the Company has provided two letters of credit to the Ministry of Energy, Industry and Mineral Resources (“MEIM”) for SAR 169 (2017: SAR 169)

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

and SAR 225 (2017: SAR 225) to construct epoxy plants and for the development of projects to support conversion industries in the Kingdom, respectively.

**(b) Petro Rabigh**

In March 2015, the two founding shareholders, the Company and Sumitomo Chemical Co. Ltd., concluded external long-term debt financing arrangements with lenders on behalf of Petro Rabigh for the Rabigh II Project (“the Project”) in the amount of SAR 19,380 (2017: SAR 19,380) for which the two shareholders provided guarantees for their equal share of the debt financing until project completion expected in 2019. As of December 31, 2018, SAR 19,380 (2017: SAR 19,174) has been drawn down from these facilities. The external debt financing is expected to provide approximately 54% of total capital requirements of SAR 36,086 (2017: SAR 33,743) for the Project with the remaining financing to be provided by a rights offering of additional shares by Petro Rabigh and other sources.

The founding shareholders also arranged an equity bridge loan of SAR 11,250 (2017: SAR 11,250), with equal share guarantees provided, to meet the equity financing requirements until the equity rights offering. The guarantees will continue until 2019. Petro Rabigh has drawn down SAR 8,888 (2017: SAR 6,555) of this loan as of December 31, 2018.

The Company has provided a standby letter of credit on behalf of Petro Rabigh for SAR 94 (2017: SAR 94) to MEIM as security for construction of certain chemical facilities related to Petro Rabigh.

**26. Derivative instruments and hedging activities**

Saudi Aramco uses interest rate swap contracts to manage exposure to interest rate risk resulting from borrowings. These hedges are designated as cash flow hedges. Saudi Aramco also engages in hedging activities through the use of currency forward contracts in relation to firm commitments under procurement contracts and transactions for foreign currency payrolls. These hedges are designated as fair value hedges. Further, Saudi Aramco uses short-term commodity swap contracts to manage exposure to price fluctuations.

The notional amounts of currency forward contracts and interest rate swap contracts designated as hedging instruments and outstanding commodity swap contracts at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Interest rate swaps . . . . .	<b>14,404</b>	10,575
Commodity swap contracts . . . . .	<b>24,146</b>	4,541
Currency forward contracts . . . . .	<b>15,821</b>	4,148
	<b><u>54,371</u></b>	<u>19,264</u>

**27. Purchases**

	<u>2018</u>	<u>2017</u>
Refined products and chemicals . . . . .	<b>147,806</b>	101,270
Crude oil . . . . .	<b>41,131</b>	24,823
	<b><u>188,937</u></b>	<u>126,093</u>

Purchases primarily consist of refined products, chemicals and crude oil purchased from third parties for use in Downstream operations and to meet demand for products in the Kingdom when it exceeds Saudi Aramco’s production of the relevant product. Saudi Aramco also purchases products from third parties in certain markets where it is more cost effective compared to procuring them from other business units.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**28. Employee benefit expense**

	<u>2018</u>	<u>2017</u>
Salaries and wages .....	29,849	27,681
Social security costs .....	1,804	1,713
Post-retirement benefits (Note 18):		
Defined benefit plans .....	6,327	7,413
Defined contribution plans .....	926	861
	<u>38,906</u>	<u>37,668</u>

**29. Payments to the Government**

	<u>2018</u>	<u>2017</u>
Income taxes (Note 8(c)) .....	180,119	172,753
Royalties (Note 23(a)) .....	213,513	141,233
Dividends (Note 23(a)) .....	217,500	187,849
	<u>611,132</u>	<u>501,835</u>

**30. Related party transactions**

**(a) Transactions**

	<u>2018</u>	<u>2017</u>
<b>Joint ventures:</b>		
Revenue from sales .....	4,159	10,620
Other revenue (Note 21) .....	30	79
Interest income .....	49	90
Service expenses .....	26	79
<b>Associates:</b>		
Revenue from sales .....	39,356	28,789
Other revenue (Note 21) .....	281	356
Interest income .....	113	98
Purchases .....	39,480	27,844
Service expenses .....	195	244
<b>Government and semi-Government agencies:</b>		
Sales .....	50,111	45,755
Other income related to sales .....	152,641	150,176
Other revenue (Note 21) .....	731	1,076
Purchases .....	3,394	3,266
Service expenses .....	323	611

Goods are purchased and sold according to supply agreements in force. Note 25 includes additional information on loans to a joint venture and an associate.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**(b) Balances**

	<b>2018</b>	<b>2017</b>
<b>Joint ventures:</b>		
Other assets and receivables (Note 9) .....	4	1,930
Trade receivables .....	176	—
Interest receivable .....	—	203
<b>Associates:</b>		
Other assets and receivables (Note 9) .....	3,296	3,220
Trade receivables .....	10,388	9,355
Trade and other payables (Note 20) .....	4,492	4,166
<b>Government and semi-Government agencies:</b>		
Trade receivables .....	8,764	6,679
Due from the Government (Note 13) .....	48,140	38,991
Trade and other payables (Note 20) .....	2,269	2,629

Sales to and receivables from Government and semi-Government agencies are made on specific terms within the relevant regulatory framework in the Kingdom.

**(c) Compensation of key management personnel**

Key management personnel of Saudi Aramco included directors and senior executive management. The compensation paid or payable to key management for services is shown below:

	<b>2018</b>	<b>2017</b>
Short-term employee benefits .....	57	50
Post-employment benefits .....	27	66
Other long-term benefits .....	10	8
Termination benefits .....	17	—
	<b>111</b>	<b>124</b>

**(d) Other transactions with key management personnel**

Other than as set out in Note 30(c), there were no reportable transactions between Saudi Aramco and members of the key management personnel and their close family members during the year ended December 31, 2018 (2017: nil).

**31. Investments in affiliates**

**(a) Investment in joint venture**

On December 6, 2018, Saudi Aramco, through its wholly owned subsidiary Motiva Enterprises LLC (“Motiva”) acquired a fuel retail business for the amount of SAR 331 which was immediately contributed to the formation of the joint venture, Juniper Ventures of Texas LLC (“Juniper”). Upon completion of the transaction, Motiva owns 60% interest in Juniper which operates certain retail gas stations and convenience stores in the state of Texas, USA. The fair value of the net identifiable assets and liabilities acquired were determined to be equal to the purchase consideration and no goodwill was recorded from the transaction. The carrying value of Juniper has been recorded as an investment in joint ventures (Note 7).

**(b) Investment in joint operations**

On March 28, 2018, Saudi Aramco, through its wholly owned subsidiary Aramco Overseas Holdings Coöperatief U.A. (“AOHC”), acquired from Petronas Refinery and Petrochemical Corporation Sdn.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Bhd. (“PETRONAS”) a 50% voting interest in Pengerang Refining Company Sdn. Bhd. (“PRefChem Refining”), and also acquired from Petronas Chemicals Group Berhad, a PETRONAS publicly traded affiliate, a 50% participation in Pengerang Petrochemical Company Sdn. Bhd. (“PRefChem Petrochemical”). The total cash consideration of the transactions amounted to SAR 3,534. In addition, Saudi Aramco has acquired 50% of the subordinated shareholder loan of SAR 791 from PRefChem Petrochemical. PRefChem Refining and PRefChem Petrochemical own certain refinery and steam cracker assets under construction which will be dedicated to the production of refining and petrochemicals products and are scheduled to commence operations in 2019. Saudi Aramco has performed an assessment of the accounting treatment for these investments under IFRS 11, Joint Arrangements, and determined that the two investments are joint operations.

Saudi Aramco has engaged an independent valuer in order to determine the fair values of the assets and liabilities of PRefChem Refining and PRefChem Petrochemical as part of the purchase price allocation, which has not yet been concluded. Based on the initial valuation, the preliminary fair values of the assets and liabilities acquired on March 28, 2018 are as follows:

Construction-in-progress (Note 5) . . . . .	36,345
Cash and cash equivalents . . . . .	1,744
Other non-current assets and liabilities, net . . . . .	(1,541)
Net working capital . . . . .	(1,212)
Short-term bank financing . . . . .	<u>(28,136)</u>
Total identifiable net assets at fair value . . . . .	7,200
Saudi Aramco’s 50% share . . . . .	3,600
Other adjustments . . . . .	<u>(66)</u>
Purchase consideration . . . . .	<u>3,534</u>

Acquisition and transaction costs totaled SAR 128 for the period ended December 31, 2018 and were expensed as selling, administrative and general in the Consolidated Statement of Income.

**(c) Investment in subsidiaries**

**(i) ARLANXEO**

On December 31, 2018, ARLANXEO, previously a joint venture (Note 7) between Saudi Aramco and LANXESS Deutschland GmbH (“LANXESS”), became a wholly owned subsidiary as a result of Saudi Aramco acquiring the remaining 50% equity interest in ARLANXEO. The initial 50% share acquisition was made on April 1, 2016. The transaction comprised the exchange of the ownership shares of LANXESS, including all the rights and obligations attached to the shares, and cash payments to LANXESS in the amount of SAR 6,106. As a result of this transaction, Saudi Aramco obtained the sole ownership of ARLANXEO, which consists of all the 15 subsidiaries (the full ownership of 14 subsidiaries and a 50% non-wholly owned interest in ARLANXEO-TSRC) that have 20 manufacturing sites in 9 countries. This acquisition is in line with Saudi Aramco’s strategy of enabling further diversification of the downstream portfolio, and strengthening its capabilities across the energy and chemicals value chain.

As part of this transaction, Saudi Aramco’s equity investment in ARLANXEO of SAR 4,943 (Note 7), previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was re-measured to fair value which resulted in a gain of SAR 870 recognized in the Consolidated Statement of Income for the year ended December 31, 2018.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date.

The preliminary fair values of identifiable assets and liabilities have been determined by management, assisted by an independent valuer, as part of the purchase price allocation process, which has not been concluded.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The following table summarizes the goodwill and the fair values of ARLANXEO's assets and liabilities acquired on December 31, 2018:

Cash and cash equivalents . . . . .	528
Accounts receivable and other assets . . . . .	2,983
Inventories . . . . .	3,112
Property, plant and equipment . . . . .	9,725
Intangible assets . . . . .	268
Trade and other payables . . . . .	(2,396)
Borrowings . . . . .	(511)
Post-employment benefit obligations and provisions . . . . .	(1,038)
Other liabilities . . . . .	<u>(1,074)</u>
Total identifiable net assets at fair value . . . . .	11,597
Non-controlling interest . . . . .	(53)
Acquisition date fair value of previously held interest . . . . .	<u>(5,813)</u>
Fair value of additional interest acquired on December 31, 2018 . . . . .	5,731
Goodwill . . . . .	210
Other adjustments . . . . .	<u>165</u>
Net purchase consideration . . . . .	<u>6,106</u>

Acquisition and transaction costs of SAR 10 for the period ended December 31, 2018 were expensed as selling, administrative and general in the Consolidated Statement of Income.

**(ii) Motiva**

On May 1, 2017, Motiva, previously a joint venture (Note 7) between Saudi Aramco and Royal Dutch Shell plc ("Shell"), became a wholly owned subsidiary as a result of Shell selling its entire equity interest in Motiva. The transaction comprised the exchange of certain assets and liabilities of Motiva and cash payments to Shell in the amount of SAR 3,341. As a result of the transaction, Saudi Aramco obtained sole ownership of Motiva's remaining assets and liabilities, including the Port Arthur, Texas refinery with a crude capacity of more than 600,000 barrels per day, 24 distribution terminals and Motiva's retained debt. This acquisition is in line with Saudi Aramco's strategy of transforming into a globally integrated oil and gas company.

As part of this transaction, Saudi Aramco's equity investment in Motiva of SAR 21,086 (Note 7), previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was remeasured to fair value which resulted in a loss of SAR 262 recognized as selling, administrative and general expense in the Consolidated Statement of Income for the year ended December 31, 2017.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

The following table summarizes the fair values of Motiva's assets and liabilities acquired on May 1, 2017:

Cash and cash equivalents . . . . .	2,790
Accounts receivable and other assets . . . . .	5,063
Inventories . . . . .	5,434
Property, plant and equipment . . . . .	33,724
Intangible assets . . . . .	3,176
Accounts payable and other liabilities . . . . .	(12,477)
Accounts payable to related parties . . . . .	(1,114)
Borrowings . . . . .	<u>(12,431)</u>
Total identifiable net assets at fair value . . . . .	24,165
Acquisition date fair value of previously held interest . . . . .	<u>(20,824)</u>
Net purchase consideration . . . . .	<u>3,341</u>

Acquisition and transaction costs totaled SAR 15 for the period ended December 31, 2017 and were expensed as selling, administrative and general in the Consolidated Statement of Income.

The fair values of identifiable assets and liabilities were determined by management, assisted by an independent valuer, as part of the purchase price allocation process. Saudi Aramco has completed the accounting of the transaction.

Prior to May 1, 2017, Saudi Aramco's share of results in Motiva were reported as share of results of joint ventures and associates in the Consolidated Statement of Income. Beginning on May 1, 2017, Motiva's results of operations were consolidated and the impact on revenue and net income after taxes in the Consolidated Statement of Income for the year ended December 31, 2017 amount to SAR 65,483 and SAR 1,043, respectively.

**32. Events after the reporting period**

**(a) Acquisition of affiliate**

On February 14, 2019, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., signed a share purchase agreement to jointly acquire the Tas'helat Marketing Company for SAR 770. Tas'helat operates a network of 270 retail gasoline service stations under the "Sahel" brand name and 71 convenience stores across the Kingdom. The two partners, over the next several years, will invest SAR 2,800 in upgrading the existing retail facilities and rebranding an equal number of the retail gasoline service stations with the two partners' brand names. Closing of the transaction is subject to regulatory approval in the Kingdom.

**(b) Cash dividend**

The consolidated financial statements do not reflect an ordinary dividend and a special dividend to the Government of SAR 48,750 and SAR 75,000, respectively, which were approved in March 2019. These dividends will be deducted from unappropriated retained earnings in the year ending December 31, 2019.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

**33. Subsidiaries of Saudi Arabian Oil Company**

Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2018 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2018 <sup>(1)</sup>
<b>A. Wholly owned:</b>				
Aramco Asia India Private Limited	Purchasing and other services India	6	6	—
Aramco Asia Japan K.K.	Purchasing and other services Japan	68	134	1
Aramco Asia Korea Ltd.	Purchasing and other services South Korea	21	5	—
Aramco Asia Singapore Pte. Ltd.	Purchasing and other services Singapore	12	2	—
Aramco Associated Company	Aircraft operations USA	69	38	2
Aramco Affiliated Services Company	Support services USA	1	6	—
Aramco Capital Company, LLC	Aircraft leasing USA	172	—	—
Aurora Capital Holdings LLC	Real estate holdings USA	—	—	—
Aramco Chemicals Company	Chemicals Saudi Arabia	—	—	—
Aramco Far East (Beijing) Business Services Co., Ltd.	Petrochemical purchasing/sales and other services People's Republic of China	516	26	9
Aramco Financial Services Company	Financing USA	1	11	—
Aramco Gulf Operations Company Ltd.	Production and sale of crude oil Saudi Arabia	66	1,041	15
Aramco Innovations LLC	Support services Russia	6	—	—
Aramco International Company Limited	Support services British Virgin Islands	—	—	—
Aramco Overseas Company Azerbaijan	Support services Azerbaijan	—	—	—
Aramco Overseas Company B.V.	Purchasing and other services Netherlands	12,068	2,513	181
Aramco Overseas Company Spain, S.L.	Personnel and other support services Spain	—	—	—
Aramco Overseas Company UK, Limited	Personnel and other support services United Kingdom	7	16	—
Aramco Overseas Malaysia SDN. BHD	Personnel and other support services Malaysia	2	5	—
Aramco Partnerships Company	Support services USA	—	—	—
Aramco Performance Materials LLC	Petrochemical manufacture and sales USA	5	4	—
Aramco Services Company	Purchasing, engineering and other services USA	433	245	5
Aramco Trading Singapore PTE-LTD	Marketing and sales support Singapore	143	640	1
Bolanter Corporation N.V.	Crude oil storage Curacao	32	—	4
Briar Rose Ventures LLC	Real estate holdings USA	—	—	—
Canyon Lake Holdings LLC	Retail fuel operations USA	—	—	—
Excellent Performance Chemicals Company	Petrochemical manufacture and sales Saudi Arabia	1	85	51
4 Rivers Energy LLC	Retail fuel operations USA	—	—	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2018 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2018 <sup>(1)</sup>
Motiva Enterprises LLC	Refining and marketing	USA	5,256	16,766	75
Motiva Trading LLC	Purchasing and sale of petroleum goods and other services	USA	—	—	—
Mukamala Oil Field Services Limited Company	Oil field services	Saudi Arabia	358	—	—
Pandlewood Corporation N.V.	Financing	Curacao	6,367	4	120
Pedernales Ventures LLC	Retail fuel operations	USA	—	—	—
Saudi Aramco Asia Company Ltd.	Investment	Saudi Arabia	1,382	—	20
Saudi Aramco Capital Company Limited	Investment	Guernsey	—	—	—
Saudi Aramco Development Company	Investment	Saudi Arabia	779	—	7
Saudi Aramco Energy Ventures LLC	Investment	Saudi Arabia	4	—	—
SAEV Europe Ltd.	Investment	United Kingdom	2	2	—
SAEV Guernsey Holdings Ltd.	Investment	Guernsey	851	—	1
SAEV Guernsey 1 Ltd.	Investment	Guernsey	115	—	—
Saudi Aramco Energy Ventures – U.S. LLC	Investment	USA	2	2	—
Saudi Aramco Entrepreneurship Center Company Ltd.	Financing	Saudi Arabia	101	3	2
Saudi Aramco Entrepreneurship Venture Company, Ltd.	Investment	Saudi Arabia	82	—	—
Saudi Aramco Investment Management Company	Investment management of post- employment benefit plans	Saudi Arabia	3	—	—
Saudi Aramco Power Company	Power generation	Saudi Arabia	7	—	—
Saudi Aramco Products Trading Company	Importing/exporting refined products	Saudi Arabia	3,540	4,821	70
Saudi Aramco Retail Company	Retail fuel marketing	Saudi Arabia	—	—	—
Saudi Aramco Sukuk Company	Investment	Saudi Arabia	—	81	—
Saudi Aramco Technologies	Research and commercialization	Saudi Arabia	78	64	—
Saudi Aramco Upstream Technology Company	Research and commercialization	Saudi Arabia	2	37	—
Saudi Petroleum International, Inc.	Marketing support services	USA	27	13	—
Saudi Petroleum, Ltd.	Marketing support and tanker services	British Virgin Islands	19	—	—
Saudi Petroleum Overseas, Ltd.	Marketing support and tanker services	United Kingdom	36	11	—
Saudi Refining, Inc.	Refining and marketing	USA	958	79	5
Stellar Insurance, Ltd.	Insurance	Bermuda	7,651	577	55
Vela International Marine Ltd.	Marine management and transportation	Liberia	21,267	—	414

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2018 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2018 <sup>(1)</sup>
Wisayah Alkhaleej Investment Company .....	Financial support Saudi Arabia	83	12	1
ARLANXEO Holding B.V. ...	Development, manufacture, and marketing of high- performance rubber Netherlands	540	2,617	—
ARLANXEO Belgium N.V. ...	Belgium			
ARLANXEO Branch Offices B.V. ....	Netherlands			
ARLANXEO Brasil S.A. ....	Brazil			
ARLANXEO Canada Inc. ....	Canada			
ARLANXEO Deutschland GmbH .....	Germany			
ARLANXEO Elastomères Frances S.A.S. ....	France			
ARLANXEO Emulsion Rubber France S.A.S. ....	France			
ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd. ....	People's Republic of China			
ARLANXEO Netherlands B.V. ....	Netherlands			
ARLANXEO Singapore Pte. Ltd. ....	Singapore			
ARLANXEO Switzerland S.A. ....	Switzerland			
ARLANXEO USA Holdings Corp. ....	USA			
ARLANXEO USA LLC .....	USA			
Petroflex Trading S.A. ....	Uruguay			
<b>B. Non-wholly owned</b>				
30% ownership of Arabian Rig Manufacturing Company <sup>(2)</sup> ..	Manufacturing Saudi Arabia	—	—	—
49% ownership of Aramco Training Services Company <sup>(2)</sup> .....	Training USA	1	—	—
50% ownership of ARLANXEO-TSRC <sup>(2)</sup> .....	Development, manufacture, and marketing of high- performance rubber People's Republic of China	—	99	—
80% ownership of Johns Hopkins Aramco Healthcare Company .....	Healthcare Saudi Arabia	292	854	3
61.6% ownership of North East Chemicals Company, Ltd ...	Liquid chemicals storage South Korea	—	—	—
70% ownership of Saudi Aramco Base Oil Company - LUBEREF .....	Production and sale of petroleum based lubricants Saudi Arabia	—	570	—
50% ownership of Saudi Aramco Nabors Drilling Company <sup>(2)</sup> .....	Drilling Saudi Arabia	794	2,085	8
50% ownership of Saudi Aramco Rowan Offshore Drilling Company <sup>(2)</sup> .....	Drilling Saudi Arabia	666	2,106	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2018 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2018 <sup>(1)</sup>
61.6% ownership of S-Oil Corporation . . . . .	Refining	South Korea	2,542	16,681	83
61.6% ownership of S-International Ltd. . . . .	Purchasing and sale of petroleum goods	The Independent State of Samoa	—	—	—

(1) Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.  
(2) Agreements and constitutive documents provide Saudi Aramco control.

**34. Joint operations of Saudi Arabian Oil Company**

	Principal business activity	Percent ownership	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2018 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2018 <sup>(1)</sup>
Al-Khafji Joint Operations . . . . .	Oil and gas exploration and production	50%	Saudi-Kuwaiti Partitioned Zone	—	—	—
Fadhili Plant Cogeneration Company . . . . .	Power generation	30%	Saudi Arabia	3	929	—
Maasvlakte Olie Terminal C.V. . . . .	Tank storage	9.61%	Netherlands	—	—	—
Maasvlakte Olie Terminal N.V. . . . .	Tank storage	16.67%	Netherlands	—	—	—
Pengerang Refining Company Sdn. Bhd. . . . .	Refining	50%	Malaysia	577	1,548	2
Pengerang Petrochemical Company Sdn. Bhd. . . . .	Petrochemical	50%	Malaysia	110	509	1
Power Cogeneration Plant Company, LLC . . . . .	Power generation	50%	Saudi Arabia	74	932	58
Saudi Aramco Mobil Refinery Company Ltd. . . . .	Refining	50%	Saudi Arabia	1,123	722	23
Saudi Aramco Shell Refinery Company . . . . .	Refining	50%	Saudi Arabia	268	308	46
Saudi Aramco Total Refining and Petrochemical Company <sup>(2)</sup> . . . . .	Refining and petrochemical	62.50%	Saudi Arabia	1,715	13,125	62
Yanbu Aramco Sinopec Refining Company Limited <sup>(2)</sup> . . . . .	Refining	62.50%	Saudi Arabia	317	7,989	—

(1) Represents Saudi Aramco's share of conventional financial assets, financial liabilities and interest income.  
(2) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint operation does not qualify as a subsidiary.

# **SAUDI ARABIAN OIL COMPANY**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**



*Independent auditor's report to the Board of Directors of the Saudi Arabian Oil Company*

**Report on the audit of the consolidated financial statements**

***Our opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Saudi Arabian Oil Company (the "Company") and its subsidiaries (together "Saudi Aramco") as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**What we have audited**

Saudi Aramco's consolidated financial statements comprise:

- the consolidated statement of income for the year ended December 31, 2017;
- the consolidated statement of comprehensive income for the year ended December 31, 2017;
- the consolidated balance sheet as at December 31, 2017;
- the consolidated statement of changes in equity for the year ended December 31, 2017;
- the consolidated statement of cash flows for the year ended December 31, 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs), that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of Saudi Aramco in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## ***Our audit approach***

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of Saudi Aramco, the accounting processes and controls, and the industry in which Saudi Aramco operates.

## **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Key audit matter**

### **How our audit addressed the key audit matter**

#### ***Changes to the fiscal regime in the Kingdom of Saudi Arabia***

The Company's income tax rate in Saudi Arabia was lowered from 85% to 50% as a result of the Government of Saudi Arabia's (the Government) announcement of changes to the Income Tax Law made in 2017.

This had a material impact on the income taxes and consequently net income for the year as well as deferred tax balances at the year end as a result of which we considered this as a key audit matter.

*Refer to Note 2(a)(ii) and Note 8 to the consolidated financial statements for further information.*

#### ***Recognition of supplemental income***

As from January 1, 2017, the Government agreed to compensate the Company for the difference between the equalisation prices and the corresponding domestic regulated prices of certain liquid hydrocarbons sold in Saudi Arabia.

This resulted in supplemental income for the year of SR 150.2 billion. The receivable from the Government at the end of the year arising from the supplemental income amounted to SR 38.7 billion, after setting off amounts relating to taxes and dividend. These non-cash and settlement transactions and the resulting balances were material within the overall context of the consolidated financial statements and required management to assess the accounting for this new source of income.

*Refer to Note 2(a)(iii), Note 13 and Note 23 to the consolidated financial statements for further information.*

We obtained the Royal Order No. A/135 dated March 27, 2017 that sets out the lower income tax rate applicable to the Company.

We reviewed the disclosures made in the consolidated financial statements around this matter. The income tax calculations for 2017 were reviewed by us in conjunction with our tax experts. We also tested the mathematical accuracy of deferred tax by reference to the new lower income tax rate and assessed the accounting treatment of the deferred tax balances.

We obtained the Council of Ministers Resolution No. 406 dated March 27, 2017 that established the entitlement of the Company to this supplemental income.

We assessed management's accounting policy for the recognition of this supplemental income and reviewed the disclosures made in the consolidated financial statements on this arrangement.

We recomputed management's calculations of the supplemental income per the detailed price equalisation rules set out in Ministerial Resolution



## Key audit matter

### ***Revenue recognition on sales made to certain Government and semi-Government customers***

As from January 1, 2017, the Government has agreed to compensate the Company for the past-due accounts receivable arising from sales of specified hydrocarbon products and services to specified Government and semi-Government customers.

In prior periods, revenue from sales to such entities was recognised on a receipt basis in view of doubt over collectability whereas revenue on such sales is recognised at the point of product delivery as from January 1, 2017 due to this Government guarantee.

As a result of this guarantee, management recognised SAR 16.5 billion of revenue during the year, of which SAR 0.3 billion are included as receivable from the Government as of December 31, 2017. This is a key audit matter because this 2017 event changed the revenue recognition point on the sales covered by the guarantee and resulted in receivables.

*Refer to Note 2(a)(v) to the consolidated financial statements for further information.*

### ***Recoverability of the carrying amount of non-associated gas assets***

During 2017, management assessed the determination of cash generating units (CGUs) in its non-associated gas assets and conducted an impairment review of these CGUs. Management concluded that no impairment needed to be recognised on these CGUs at December 31, 2017. The carrying amount of non-associated gas assets included in Property, plant and equipment at December 31, 2017 amounted to SAR 223.4 billion.

Assessing the recoverability of the carrying amount of these assets by reference to their value in use (VIU) required management to make complex estimates based on significant judgements and assumptions concerning the future.

## How our audit addressed the key audit matter

No. 1/2465/1439 dated December 28, 2017 issued by the Government to the Company on a sample basis.

We reviewed the settlements made in 2017 of the amounts due from the Government and the set-offs subsequent to the year end.

We obtained the Council of Ministers Resolution No 201 dated December 22, 2016 (the Resolution) that established the entitlement of the Company to this Government guarantee.

In addition to testing the accuracy of the sales, we also tested that the recognised revenue and the consequent amounts transferred to the Government related solely to sales made to authorised parties for products referred to in the Resolution and within the credit limits set out therein.

We tested that the timing of the transfer of the balances to the Government was made in accordance with the Resolution.

We also assessed the disclosures of these arrangements in the consolidated financial statements.

We updated our understanding of the gas operations and confirmed our understanding of the gas pricing structure by conducting enquiries with management and meeting senior officials from Ministry of Energy, Industry and Mineral Resources (MEIM). We used this information to consider the appropriateness of management's identification of CGUs. We consulted with our financial reporting specialists and Oil and Gas Industry experts on this matter.

In conjunction with our valuation experts, we tested the mathematical accuracy and logical integrity of the VIU models. We traced price assumptions and fiscal treatment of items specific to gas to the available supporting documentation. We compared future production profiles to historical production trends and to reserves information prepared by management to assess the reliability and reasonableness of these estimates. Financial information used in the models was agreed to approved business plans. The reasonableness of the discount rate was reviewed by cross-checking it against a market based discount rate derived under the capital asset pricing model (CAPM) framework, using observable market data and assumptions for the individual CAPM

**Key audit matter****How our audit addressed the key audit matter**

Critical assumptions relate to future gas prices in the Kingdom of Saudi Arabia, allocation mechanisms, future gas production levels and investments, gas reserves and the discount rate used.

Given the complexity in determining CGUs for these assets, the materiality of these amounts and the assumptions involved in the VIU calculations, we considered this as a key audit matter.

*Refer to Note 2(g) and Note 2(h) to the consolidated financial statements for further information.*

parameters. We also assessed the appropriateness of the accounting policies disclosed in the consolidated financial statements on this matter.

***Other information***

Management is responsible for the other information. The other information comprises the Financial Highlights (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Board of Directors and those charged with governance for the financial statements***

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing Saudi Aramco's financial reporting process.

***Auditor's responsibilities for the audit of the consolidated financial statements***

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

**PricewaterhouseCoopers**



Bader Benmohareb  
License No. 471  
Dhahran

March 14, 2018

**Saudi Arabian Oil Company**  
**Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**CONSOLIDATED STATEMENT OF INCOME**

	Note	Year ended December 31		Year ended December 31	
		2017 SAR	2016 SAR	2017 USD*	2016 USD*
Revenue .....	21	<b>835,983</b>	504,596	<b>222,929</b>	134,559
Supplemental income .....	2(a)(iii)	<b>150,176</b>	—	<b>40,047</b>	—
<b>Revenue and supplemental income .....</b>		<b>986,159</b>	504,596	<b>262,976</b>	134,559
Production royalties .....	2(a)(iv)	<b>(136,393)</b>	—	<b>(36,372)</b>	—
Purchases .....	27	<b>(120,398)</b>	(53,231)	<b>(32,106)</b>	(14,195)
Producing and manufacturing .....		<b>(64,045)</b>	(48,369)	<b>(17,079)</b>	(12,898)
Selling, administrative and general .....		<b>(29,606)</b>	(37,051)	<b>(7,895)</b>	(9,880)
Exploration .....		<b>(13,725)</b>	(11,087)	<b>(3,660)</b>	(2,957)
Research and development .....		<b>(1,902)</b>	(1,897)	<b>(507)</b>	(506)
Depreciation and amortization .....	5,6	<b>(36,894)</b>	(33,615)	<b>(9,838)</b>	(8,964)
Impairments .....	5	<b>(281)</b>	(13,646)	<b>(75)</b>	(3,639)
<b>Operating costs .....</b>		<b>(403,244)</b>	(198,896)	<b>(107,532)</b>	(53,039)
<b>Operating income .....</b>		<b>582,915</b>	305,700	<b>155,444</b>	81,520
Share of results from joint ventures and associates .....	7	<b>(956)</b>	(979)	<b>(255)</b>	(261)
Finance and other income .....	22	<b>1,569</b>	1,609	<b>418</b>	429
Finance costs .....	17	<b>(2,090)</b>	(1,354)	<b>(557)</b>	(361)
<b>Income before income taxes .....</b>		<b>581,438</b>	304,976	<b>155,050</b>	81,327
<b>Income taxes .....</b>	8	<b>(296,819)</b>	(255,255)	<b>(79,152)</b>	(68,068)
<b>Net income .....</b>		<b>284,619</b>	49,721	<b>75,898</b>	13,259
<b>Net income attributable to</b>					
Government's equity .....		<b>283,198</b>	48,349	<b>75,519</b>	12,893
Non-controlling interests .....		<b>1,421</b>	1,372	<b>379</b>	366
		<b>284,619</b>	49,721	<b>75,898</b>	13,259

\* In millions, supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.



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Officer



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**Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended December 31		Year ended December 31	
		2017 SAR	2016 SAR	2017 USD*	2016 USD*
<b>Net income</b> .....		<b>284,619</b>	49,721	<b>75,898</b>	13,259
<b>Other comprehensive loss, net of tax</b> .....	16				
<b>Items that will not be reclassified to net income</b>					
Change in post-employment benefit deferred tax asset due to new income tax rate .....		<b>(15,475)</b>	—	<b>(4,127)</b>	—
Remeasurement of post-employment benefit obligations .....		<b>3,761</b>	(1,028)	<b>1,003</b>	(274)
Share of post-employment benefit obligations remeasurement from joint ventures and associates .....		<b>3</b>	(34)	<b>1</b>	(9)
<b>Items that may be reclassified subsequently to net income</b>					
Cash flow hedges and other .....		<b>(169)</b>	—	<b>(45)</b>	—
Fair value adjustments of available-for-sale financial assets ..		<b>1,147</b>	765	<b>306</b>	204
Change in investment in securities deferred tax liability due to new income tax rate .....		<b>1,921</b>	—	<b>512</b>	—
Share of results from joint ventures and associates .....		<b>456</b>	(128)	<b>122</b>	(34)
Currency translation differences .....		<b>3,333</b>	(775)	<b>889</b>	(207)
		<b>(5,023)</b>	(1,200)	<b>(1,339)</b>	(320)
<b>Total comprehensive income</b> .....		<b>279,596</b>	48,521	<b>74,559</b>	12,939
<b>Total comprehensive income attributable to</b>					
Government's equity .....		<b>277,017</b>	47,449	<b>73,871</b>	12,653
Non-controlling interests .....		<b>2,579</b>	1,072	<b>688</b>	286
		<b>279,596</b>	48,521	<b>74,559</b>	12,939

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**CONSOLIDATED BALANCE SHEET**

	Note	At December 31		At December 31	
		2017 SAR	2016 SAR	2017 USD*	2016 USD*
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	751,134	635,366	200,302	169,431
Intangible assets	6	24,346	15,600	6,492	4,160
Investment in joint ventures and associates	7	27,273	43,500	7,273	11,600
Deferred income tax assets	8	13,606	64,508	3,628	17,202
Other assets and receivables	9	14,119	12,461	3,765	3,323
Investment in securities	10	18,872	17,464	5,033	4,657
		<b>849,350</b>	<b>788,899</b>	<b>226,493</b>	<b>210,373</b>
<b>Current assets</b>					
Inventories	11	34,013	21,056	9,070	5,615
Trade receivables	12	86,892	65,258	23,171	17,402
Due from the Government	13	38,991	—	10,398	—
Other assets and receivables	9	5,881	4,879	1,568	1,301
Short-term investments	14	6,184	12,536	1,649	3,343
Cash and cash equivalents	15	81,242	48,075	21,665	12,820
		<b>253,203</b>	<b>151,804</b>	<b>67,521</b>	<b>40,481</b>
<b>Total assets</b>		<b>1,102,553</b>	<b>940,703</b>	<b>294,014</b>	<b>250,854</b>
<b>Equity and liabilities</b>					
<b>Government's equity</b>					
Stated capital		60,000	60,000	16,000	16,000
Additional paid-in capital		26,981	26,981	7,195	7,195
Retained earnings:					
Unappropriated		715,107	631,481	190,695	168,396
Appropriated		6,000	6,000	1,600	1,600
Other reserves	16	5,670	128	1,512	33
		<b>813,758</b>	<b>724,590</b>	<b>217,002</b>	<b>193,224</b>
<b>Non-controlling interests</b>		<b>12,556</b>	<b>10,756</b>	<b>3,348</b>	<b>2,868</b>
		<b>826,314</b>	<b>735,346</b>	<b>220,350</b>	<b>196,092</b>
<b>Non-current liabilities</b>					
Borrowings	17	68,692	43,477	18,318	11,594
Deferred income tax liabilities	8	6,309	6,169	1,682	1,645
Post-employment benefit obligations	18	38,191	46,785	10,184	12,476
Provisions	19	13,997	9,398	3,733	2,506
		<b>127,189</b>	<b>105,829</b>	<b>33,917</b>	<b>28,221</b>
<b>Current liabilities</b>					
Trade and other payables	20	62,055	52,139	16,548	13,904
Obligations to the Government					
Income taxes	8	57,679	28,541	15,381	7,611
Royalties		20,410	9,866	5,443	2,631
Borrowings	17	8,906	8,982	2,375	2,395
		<b>149,050</b>	<b>99,528</b>	<b>39,747</b>	<b>26,541</b>
		<b>276,239</b>	<b>205,357</b>	<b>73,664</b>	<b>54,762</b>
<b>Total equity and liabilities</b>		<b>1,102,553</b>	<b>940,703</b>	<b>294,014</b>	<b>250,854</b>

\* In millions, supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.



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**Consolidated Financial Statements**

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Equity attributable to the Government						Total SAR	Total USD*
	Stated capital SAR	Additional paid-in capital SAR	Retained earnings <sup>(1)</sup>		Other reserves (Note 16) SAR	Non-controlling interests SAR		
			Unappropriated SAR	Appropriated SAR				
<b>Balance at January 1, 2016</b> . . . . .	60,000	26,981	595,451	6,000	(41)	10,055	698,446	186,252
Net income . . . . .	—	—	48,349	—	—	1,372	49,721	13,259
Other comprehensive loss . . . . .	—	—	—	—	(900)	(300)	(1,200)	(320)
Total comprehensive income (loss) . . . . .	—	—	48,349	—	(900)	1,072	48,521	12,939
Transfer of post-employment benefit obligations remeasurement . . . . .	—	—	(1,069)	—	1,069	—	—	—
Distributions . . . . .	—	—	(11,250)	—	—	—	(11,250)	(3,000)
Dividends paid to non-controlling interests . . . . .	—	—	—	—	—	(371)	(371)	(99)
<b>Balance at December 31, 2016</b> . . . . .	<u>60,000</u>	<u>26,981</u>	<u>631,481</u>	<u>6,000</u>	<u>128</u>	<u>10,756</u>	<u>735,346</u>	<u>196,092</u>
Net income . . . . .	—	—	<b>283,198</b>	—	—	<b>1,421</b>	<b>284,619</b>	<b>75,898</b>
Other comprehensive (loss) income . . . . .	—	—	—	—	<b>(6,181)</b>	<b>1,158</b>	<b>(5,023)</b>	<b>(1,339)</b>
Total comprehensive income (loss) . . . . .	—	—	<b>283,198</b>	—	<b>(6,181)</b>	<b>2,579</b>	<b>279,596</b>	<b>74,559</b>
Transfer of post-employment benefit obligations remeasurement . . . . .	—	—	(11,723)	—	11,723	—	—	—
Distributions . . . . .	—	—	(187,849)	—	—	—	(187,849)	(50,093)
Acquisition of subsidiary . . . . .	—	—	—	—	—	94	94	25
Change in control of affiliate . . . . .	—	—	—	—	—	218	218	58
Dividends paid to non-controlling interests . . . . .	—	—	—	—	—	(1,091)	(1,091)	(291)
<b>Balance at December 31, 2017</b> . . . . .	<u>60,000</u>	<u>26,981</u>	<u>715,107</u>	<u>6,000</u>	<u>5,670</u>	<u>12,556</u>	<u>826,314</u>	<u>220,350</u>

\* In millions, supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

(1) Appropriated retained earnings represent a legal reserve of Saudi Aramco as established under the original Articles of the Saudi Arabian Oil Company which is not available for distribution (Note 1).



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**Consolidated Financial Statements**

(All amounts in millions of Saudi Riyals unless otherwise stated)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Year ended December 31		Year ended December 31	
		2017 SAR	2016 SAR	2017 USD*	2016 USD*
<b>Income before income taxes</b>		<b>581,438</b>	304,976	<b>155,050</b>	81,327
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities</b>					
Depreciation and amortization	5,6	36,894	33,615	9,838	8,964
Impairments and provisions		190	14,794	51	3,945
Exploration and evaluation costs written off		8,522	6,791	2,272	1,811
Net (gain) loss on disposal of property, plant and equipment		(464)	127	(124)	34
Share of results from joint ventures and associates	7	956	979	255	261
Net interest expense		873	487	233	130
Dividends from investment in securities		(141)	(154)	(38)	(41)
Loss on remeasurement of investment in Motiva	30(a)(i)	262	—	70	—
Change in fair value of investments through profit and loss		(38)	38	(10)	10
Change in joint ventures and associates inventory profit elimination		(530)	(19)	(141)	(5)
Other		156	(283)	42	(75)
<b>Change in working capital</b>					
Inventories		(7,524)	(3,855)	(2,006)	(1,028)
Trade receivables		(17,874)	(21,435)	(4,766)	(5,716)
Due from the Government		(38,991)	—	(10,398)	—
Other assets and receivables		(517)	1,102	(138)	294
Trade and other payables		(1,140)	10,613	(304)	2,830
Royalties payable		10,544	4,789	2,811	1,277
<b>Other changes</b>					
Other assets and receivables		(3,204)	(3,122)	(854)	(833)
Provisions		(1,597)	6	(426)	2
Post-employment benefit obligations		(1,140)	(1,260)	(304)	(336)
Settlement of income and other taxes	23(a)	(233,068)	(238,778)	(62,151)	(63,674)
<b>Net cash provided by operating activities</b>		<b>333,607</b>	109,411	<b>88,962</b>	29,177
Capital expenditures		(121,955)	(103,346)	(32,521)	(27,559)
Acquisition of affiliates, net of cash acquired	30(a),(b)	(1,152)	—	(307)	—
Distributions from joint ventures and associates		840	278	224	74
Dividends from securities		141	154	38	41
Interest received		1,167	744	311	198
Investment in Arlanxeo	30(c)	—	(5,160)	—	(1,376)
Additional investment in joint ventures and associates		(3,546)	(5,325)	(946)	(1,420)
Net investment in securities		(476)	(829)	(127)	(221)
Net maturities (purchases) of short-term investments		6,352	(3,416)	1,694	(911)
<b>Net cash used in investing activities</b>		<b>(118,629)</b>	(116,900)	<b>(31,634)</b>	(31,174)
Distributions to the Government	23(a)	(187,849)	(11,250)	(50,093)	(3,000)
Dividends paid to non-controlling interests		(1,091)	(371)	(291)	(99)
Interest paid		(1,795)	(1,121)	(479)	(299)
Proceeds from borrowings		20,245	18,007	5,399	4,802
Repayments of borrowings		(11,321)	(3,244)	(3,019)	(865)
<b>Net cash (used in) provided by financing activities</b>		<b>(181,811)</b>	2,021	<b>(48,483)</b>	539
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>33,167</b>	(5,468)	<b>8,845</b>	(1,458)
Cash and cash equivalents at beginning of the year		48,075	53,543	12,820	14,278
<b>Cash and cash equivalents at end of the year</b>		<b>81,242</b>	48,075	<b>21,665</b>	12,820

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**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
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**1. General information**

The Saudi Arabian Oil Company (the “Company”), whose headquarters are located in Dhahran, Kingdom of Saudi Arabia (the “Kingdom”), is engaged in the exploration, production, transportation and sale of crude oil and natural gas (“Upstream”) and the manufacture, transportation and sale of petroleum products (“Downstream”). The Company conducts its activities pursuant to a concession granted by the Saudi Arabian Government (the “Government”) which, subject to its terms, grants the Company, among other things, the exclusive right to extract, process and refine hydrocarbons onshore and offshore within the Kingdom subject to limited exclusions. The Company was formed on November 13, 1988 by Royal Decree No. M/8; which approved the Company’s original Articles (“1988 Articles”); however, its history dates back to May 29, 1933 when the Kingdom granted a concession to the Company’s predecessor the right to, among other things, explore the Kingdom for oil. The Company’s stated capital was fully contributed at the date of formation.

On December 20, 2017, Royal Decree No. M/37 dated 2/4/1439H was issued approving the Hydrocarbons Law (“Hydrocarbons Law”) which applies to the Kingdom’s hydrocarbons and hydrocarbon operations. The Hydrocarbons Law came into effect on December 22, 2017 upon publication in the Official Gazette. Royal Decree No. M/37 further decreed that the concession existing prior to the effective date of the Hydrocarbons Law remained in effect under and subject to the Hydrocarbons Law. Under the Hydrocarbons Law, all hydrocarbon deposits, hydrocarbons and hydrocarbon resources are the property of the Kingdom until ownership is transferred at the well head or when extracted. Further, the Hydrocarbons Law codified the Kingdom’s sole authority to set the maximum amount of hydrocarbons production by the Company and the maximum sustainable capacity that the Company must maintain.

Effective January 1, 2018, Council of Minister’s Resolution No. 180, dated 1/4/1439 H (December 19, 2017) converted the Company to a Saudi Joint Stock Company with new Bylaws. The Company’s 1988 Articles were cancelled as of January 1, 2018 pursuant to Royal Decree No. M/36, dated 2/4/1439H (December 20, 2017). The Company’s capital has been set at Saudi Riyal (“SAR”) 60,000 and is divided into 200 billion voting ordinary shares without par value. The Company is in the process of securing its Commercial Registration through the Ministry of Commerce and Investment.

The consolidated financial statements of the Company and its subsidiaries (together “Saudi Aramco”) were approved by the Board of Directors on March 14, 2018.

**2. Summary of significant accounting policies, judgments and estimates**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The consolidated financial statements provide comparative information in respect of the previous period.

**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), that are endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The Company adopted IFRS that are endorsed by SOCPA effective January 1, 2017. Previously the Company prepared the financial statements solely in compliance with IFRS as issued by the IASB. Hence adoption of IFRS that are endorsed by SOCPA is not considered first time adoption of IFRS. There is no impact of this change on recognition and measurement of assets, liabilities, income or expense in these consolidated financial statements. Additional disclosures required by SOCPA are included in the respective notes to the financial statements. Amounts and balances relating to Shari’a compliant financial instruments of the Company, its subsidiaries and investments are disclosed separately. All other relevant amounts and balances relate to conventional financial instruments.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
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The consolidated financial statements have been prepared under the historical cost convention except for certain items measured at fair value which are, primarily, investment in securities. The accounting policies that follow have been consistently applied to all years presented, unless otherwise stated.

In 2016, the Supreme Council mandated studying various options to allow broad public participation in the Company's equity in a capital market listing of an appropriate percentage of its shares. As a result of this announcement, discussions commenced between the Company and the Government on various matters. Those discussions continued in 2017 and resulted in the following:

**(i) Change in presentation currency**

On January 1, 2017, Saudi Aramco changed its presentation currency from USD to SAR in expectation of the Company's capital market listing. There is no impact of this change to net income, total comprehensive income, assets, liabilities or equity as the exchange rate between USD and SAR is fixed (Note 2(t)).

Translations from SAR to USD presented as supplementary information in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows as at and for the years ended December 31, 2017 and 2016, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 (2016: SAR 3.75) representing the exchange rate at the balance sheet dates.

**(ii) Tax rate change**

On March 27, 2017, the Government announced new multi-tiered income tax rates for authorized producers of hydrocarbons. The new rates are based on the amount of in-Kingdom capital investment. As a result, a new income tax rate of 50% is applicable to the Company effective from January 1, 2017. The income tax rate is lowered from the previously applicable rate of 85%.

**(iii) Supplemental income**

The Government is compensating the Company through price equalization for revenue directly foregone as a result of the Company's compliance with local regulations governing domestic sales and distribution of certain liquid products. This compensation reflected in these consolidated financial statements is calculated by the Company as the difference between the product's equalization price and the corresponding domestic regulated price, net of Government fees, in accordance with the implementing regulations issued by the Government on December 28, 2017 and were effective from January 1, 2017.

This compensation is recorded as supplemental income, that is taxable, when Saudi Aramco has transferred to the buyer the significant risks and rewards of ownership which occurs when product is physically transferred. The compensation due from the Government is characterized as a Due from the Government current receivable and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less impairment losses, if any.

As at December 31, 2017, the related balance due from the Government was SAR 38,717 (2016: nil) (Note 13). The implementing regulations allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government.

**(iv) Production royalties**

As of January 1, 2017, royalties payable to the Government are calculated based on a progressive scheme applied to crude oil and condensate production as described in Note 2(v). Royalties are

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

presented as a separate line within operating cost in the income statement and are deductible costs for Government income tax calculations.

Previously, royalties to the Government consisted primarily of an amount equal to 20% of the value of crude oil and refined products sold as exports. Such royalties were accounted for as deductions from gross revenue and were deductible costs for Government income tax calculations.

**(v) Receivables from Government and Semi-Government Agencies**

Effective January 1, 2017, the Government is compensating the Company for the past due accounts receivable of specified Government and semi-Government customers to whom the Company supplies specified products and services.

Revenue on sales to these customers is recognized when Saudi Aramco has transferred the significant risks and rewards of ownership which occurs when product is physically transferred. Once receivables from these customers are past due, these accounts receivable are reclassified as a Due from the Government current receivable.

As at December 31, 2017, the past-due balance from these customers which is included in the Due from the Government was SAR 274 (2016: nil) (Note 13). The implementing regulations issued by the Government on December 28, 2017 allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government.

**(b) Significant accounting judgments and estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to exercise judgment in the process of applying Saudi Aramco's accounting policies and in the use of certain critical accounting estimates and assumptions concerning the future. Management has made various judgments that may significantly impact the valuation and presentation of assets and liabilities. In addition, judgment is also applied when undertaking the estimation procedures that are necessary to calculate assets, liabilities, revenue and expenses. Accounting estimates, by definition, may not equal the related actual results and are subject to change based on experience and new information. The areas requiring the most significant judgments, estimates and assumptions in the preparation of the consolidated financial statements are: accounting for interest in subsidiaries, joint arrangements and associates, recoverability of asset carrying amounts, taxation, provisions and post-retirement obligations and are set out in the individual accounting policies below.

**(c) New or amended standards**

There are no new or amended standards or interpretations adopted during the year that have a significant impact on the consolidated financial statements. The following IASB pronouncements that are endorsed in the Kingdom will become effective for future financial reporting periods and have not yet been adopted by Saudi Aramco.

IFRS 9, Financial Instruments, will supersede IAS 39, Financial Instruments: Recognition and Measurement, and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 covers classification, measurement and derecognition of financial assets and financial liabilities, impairment methodology and hedge accounting. Saudi Aramco has substantially completed its assessment of adoption of IFRS 9 and has determined that the adoption will have the following impact to the consolidated financial statements:

- Saudi Aramco has equity instruments currently classified as available-for-sale for which a fair value through other comprehensive income election is available under IFRS 9, on an instrument-by-instrument basis, and Saudi Aramco does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realized on the sale of financial assets at fair value through other comprehensive income will no longer be

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

transferred to profit or loss on sale but instead will be reclassified to retained earnings. Certain equity instruments currently classified as available-for-sale will be measured at fair value through profit or loss, the impact of which is not expected to be material. Certain unlisted equity investments which are currently being measured at fair value through profit or loss will continue to be measured on the same basis under IFRS 9. Saudi Aramco's debt securities that are currently classified as available-for-sale will satisfy the conditions for classification at fair value through other comprehensive income and hence there will be no change to the accounting for these assets. Saudi Aramco has analyzed the characteristics of contractual cash flows pertaining to loans and receivables and concluded that they meet the criteria for amortized cost measurement under IFRS 9 and accordingly there will be no change in respect of classification and measurement for these financial assets. There will be no impact on Saudi Aramco's accounting for financial liabilities.

- The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. Based on assessments undertaken to date, Saudi Aramco does not expect any material increase in the loss allowance.

IFRS 15, Revenue from Contracts with Customers, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. It will supersede IAS 18, Revenue. Saudi Aramco has substantially completed its assessment of the impact of adoption of IFRS 15. The impact on Saudi Aramco of adopting IFRS 15 is limited to separately disclosing provisional pricing movements and presenting revenue on a gross basis for certain indirect taxes collected by Saudi Aramco in its capacity as the principal. The adoption of IFRS 15 is not expected to have any material impact on total revenue or net income of Saudi Aramco and will be applied using the full retrospective approach.

IFRS 16, Leases, released by the IASB in January 2016, provides a new model for lease accounting in which all leases, other than short-term and small value leases, will be accounted for by the recognition on the Consolidated Balance Sheet of a right-to-use asset and a lease liability, and the subsequent amortization of the right-to-use asset over the lease term. IFRS 16 will supersede IAS 17, Leases. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019 and is expected to impact the consolidated financial statements of Saudi Aramco by increasing the assets and liabilities of Saudi Aramco and potentially affecting the presentation and timing of costs in net income. Information on leases, currently classified as operating leases, which are not recognized in the Consolidated Balance Sheet, is provided in Note 24(b). Saudi Aramco is currently undergoing a thorough exercise to assess the full extent of the impact on the 2019 consolidated financial statements.

**(d) Principles of consolidation and equity accounting**

**(i) Subsidiaries**

The consolidated financial statements reflect the assets, liabilities and operations of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany balances and transactions, including unrealized profits and losses arising from intragroup transactions, have been eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies with those used by the Company.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The acquisition method of accounting is used to account for business combinations. The cost of the acquisition of a subsidiary is measured as the fair value of the assets given and liabilities incurred or assumed at the date of the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date the assets and liabilities are exchanged, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the acquired share of the identifiable net assets is recorded as goodwill. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to Saudi Aramco. Acquisition related costs are expensed as incurred.

Saudi Aramco recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statements of Income and Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Balance Sheet, respectively.

If the business combination is achieved in stages, the acquisition date carrying value of the previously held equity interest is re-measured to fair value at the acquisition date with any gains or losses arising from such re-measurement recognized in net income.

**(ii) Joint arrangements**

Under IFRS 11, Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Saudi Aramco has both joint operations and joint ventures.

**1) Joint operations**

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of a joint arrangement. In relation to its interests in joint operations, Saudi Aramco recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

**2) Joint ventures**

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Saudi Aramco's share of results from its joint ventures is recognized within net income, while its share of post-acquisition movements in other comprehensive income is recognized within other comprehensive income. The cumulative effect of these changes is adjusted against the carrying amount of Saudi Aramco's investment in joint ventures, which is presented separately in the Consolidated Balance Sheet. When Saudi Aramco's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured non-current receivables, Saudi Aramco does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

Gains and losses on transactions between Saudi Aramco and joint ventures not realized through a sale to a third party are eliminated to the extent of Saudi Aramco's interest in the joint ventures. Where necessary, adjustments are made to the financial statements of joint ventures to align their accounting policies with those used by Saudi Aramco.

Saudi Aramco's investment in joint ventures includes, when applicable, goodwill identified on acquisition, net of any accumulated impairment loss. Goodwill represents the excess of the cost of an acquisition over the fair value of Saudi Aramco's share of the net identifiable assets of the acquired joint venture at the date of acquisition. Dilution gains and losses arising from investments in joint ventures are recognized in net income.

Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

**(iii) Associates**

Associates are entities over which Saudi Aramco has significant influence but not control, generally reflected by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The accounting policies for joint ventures detailed in Note 2(d)(ii)(2) above are also applied by Saudi Aramco to its associates.

*Significant accounting judgments and estimates*

Judgments are applied in the determination of whether control, joint control or significant influence is present with respect to investments in subsidiaries, joint arrangements or associates, respectively, and in the case of joint control whether the joint arrangement is classified as a joint venture or joint operation taking into account the specific facts and circumstances, as detailed in Notes 7, 32, and 33, respectively.

**(e) Intangible assets**

Intangible assets other than exploration and evaluation costs (see Note 2(f) below) consist primarily of brands and trademarks, franchise / customer relationships, computer software and patents and intellectual property. If acquired in a business combination, these intangible assets are recognized at their fair value at the date of acquisition and, if acquired separately, these intangible assets are recognized at cost. All of these intangible assets are subsequently amortized on a straight line basis over their estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of these intangible assets:

Brands and trademarks . . . . .	10 to 15
Franchise / customer relationships . . . . .	5 to 10
Computer software . . . . .	3 to 5
Patents and intellectual property . . . . .	15

Amortization is recorded in depreciation and amortization in the Consolidated Statement of Income.

**(f) Exploration and evaluation**

Exploration and evaluation costs are recorded under the successful efforts method. Under the successful efforts method, geological and geophysical costs are recognized as an expense when incurred and exploration costs associated with exploratory wells are initially capitalized on the Company's consolidated balance sheet as an intangible asset until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found these

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

costs continue to be capitalized subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found, and no alternative use of the well is determined, the previously capitalized costs are evaluated for derecognition or tested for impairment.

Exploratory wells remain capitalized while additional appraisal drilling on the potential oil and/or gas field is performed or while optimum development plans are established. All such capitalized costs are not subject to amortization, but at each reporting date are subject to regular technical and management review to confirm the continued intent to develop, or otherwise extract value from the well. Where such intent no longer exists, the costs are immediately written off to net income. Capitalized exploratory expenditures are not subject to amortization but, at each reporting date, are subject to review for impairment indicators.

When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalized costs are transferred to property, plant and equipment.

**(g) Property, plant and equipment**

Property, plant and equipment is stated on the Company's consolidated balance sheet at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the construction and/or acquisition of the asset. Land and construction-in-progress are not depreciated. When a construction-in-progress asset is deemed ready to use as intended by management, depreciation commences.

Subsequent expenditures including major renovations are included in an asset's carrying amount, or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to Saudi Aramco and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repair and maintenance expenditures are expensed as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met (Note 2(r)).

Where the life of expected hydrocarbon reserves substantially exceeds the economic or technical lives of the underlying assets, the straight line method of depreciation is used on a field by field basis. Depreciation expense on all other assets is calculated using the straight line method to allocate the cost less residual values over the estimated useful lives. Depreciation expense is recorded in the Consolidated Statement of Income.

Depreciation expense is calculated after determining an estimate of an asset's expected useful life and the expected residual value at the end of its useful life. The useful lives and residual values are determined by management at the time the asset is initially recognized and reviewed annually for appropriateness or when events or conditions occur that impact capitalized costs, hydrocarbon reserves or estimated useful lives.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets:

<b>Crude oil facilities:</b>	
Pipelines and storage tanks .....	20 to 25
Drilling and construction equipment .....	4 to 15
Oil and gas properties .....	15 to 30
Marine equipment .....	13 to 30
<b>Refinery facilities</b> .....	6 to 30
<b>Gas &amp; NGL facilities</b> .....	6 to 20
<b>General service plant:</b>	
Permanent buildings .....	20 to 40
Roads and walkways .....	10 to 21
Aircraft .....	8 to 15
Autos and trucks .....	3 to 15
Office furniture and equipment .....	6 to 10
Computers and computer software .....	3 to 5

Net gains and losses on disposals of depreciable assets are recognized in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

**(h) Impairment of non-financial assets**

Saudi Aramco assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either, post-tax discounted cash flow models or available data from binding sales transactions in an arm's length transaction for similar assets, or observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a post-tax risk adjusted discounted cash flow model.

Impairment losses are recognized as a component of net income. If, in a subsequent period, the amount of a non-goodwill impairment loss decreases, a reversal of the previously recognized impairment loss is recognized in net income.

*Significant accounting judgments and estimates*

Impairment tests are undertaken on the basis of the lowest levels of cash generating units, or individual assets, for which there are largely independent cash inflows. The key assumptions used to determine the different cash generating units involves significant judgment from management.

For the purposes of determining whether impairment of oil, gas and refining assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating future cash flows for its VIU calculations are forecasted future oil and gas prices, expected production volumes, future operating and development costs, refining margins and significant changes to the discount rate used for the discounted cash flow model. There is an inherent uncertainty over forecasted information and assumptions. Changes in these assumptions and forecasts could impact the recoverable amounts of assets and any calculated impairment and reversals, thereof.

**(i) Leases**

Agreements under which Saudi Aramco makes payments to third parties in return for the right to use an asset for a period of time are accounted for as leases. Leases that transfer substantially all the risks and



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

rewards of ownership to Saudi Aramco are recorded at commencement as finance leases. Such leases are capitalized on the Consolidated Balance Sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The interest element of leases is recorded in net income using the effective interest method over the term of the lease. Contingent rentals are recognized as an expense in the periods in which they are incurred. All other leases are recorded as operating leases and the associated costs are recorded in net income on a straight line basis over the period of the lease.

Where Saudi Aramco is the lessor in a finance lease, the present value of the lease payments is recognized as a receivable. The interest element of the lease receivable is recognized in net income using the effective interest method.

**(j) Financial assets**

Management determines the classification of its financial assets based on the purpose for which the financial assets are initially acquired. At the end of each reporting period, Saudi Aramco assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Regular purchases and sales of financial assets are recognized on the trade-date which is the date Saudi Aramco commits to purchase or sell the asset.

Saudi Aramco's financial assets are classified into one of the following three categories:

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading or, upon initial recognition, are designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term if held for trading or for a longer term if initially designated at fair value through profit or loss. Transaction costs are expensed as incurred as a component of net income. Financial assets at fair value through profit or loss are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using, primarily, discounted cash flow valuation techniques. Changes in the fair value of financial assets at fair value through profit or loss are recognized as a component of net income.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets, less provision for impairment, if any. Such provisions are recognized as a component of net income.

Impairment of loans and receivables is established when there is objective evidence that Saudi Aramco will not be able to collect all amounts due according to the original terms. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables comprise cash and cash equivalents, short-term investments, trade receivables, due from the Government and certain other assets and receivables.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(iii) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using discounted cash flow valuation techniques. Changes in the fair value of available-for-sale financial assets are recognized through other comprehensive income. Dividends and interest income are recognized within finance and other income.

A significant or prolonged decline in the fair value of an equity security classified as an available-for-sale financial asset below its cost is considered as an indicator that the security is impaired. Impairment losses recognized in net income related to equity securities are not reversed.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized through other comprehensive income are included as a component of net income.

**(k) Derivative instruments and hedging activities**

Saudi Aramco's use of derivative instruments does not have a material effect on its financial position or results of operations.

**(i) Derivative instruments classified as held for trading**

Saudi Aramco uses commodity swap derivative financial instruments to manage exposure to price fluctuations which arise on purchase and sale transactions for physical deliveries of various refined products. The swaps are initially recognized, and subsequently re-measured at fair value and recorded as an asset, when the fair value is positive, or liability, when the fair value is negative, under trade receivables or trade and other payables in the Consolidated Balance Sheet, respectively.

The fair value of the swap is determined in accordance with Saudi Aramco's derivative valuation policy by reference to the traded price of that instrument on the relevant exchange or over-the-counter markets at the Consolidated Balance Sheet date. The gain or loss from the changes in the fair value of the swap from its value at inception is recognized in net income.

**(ii) Derivative instruments designated as hedges**

Saudi Aramco uses interest rate swap, commodity swap and currency forward contracts to manage its exposure to fluctuations in interest rates, commodity prices and foreign exchange rates. These derivative financial instruments, designated as either fair value or cash flow hedges, are purchased from counter parties of high credit standing and are initially recognized, and subsequently remeasured, at fair value.

At the inception of the hedging transaction, Saudi Aramco documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction. An assessment is also documented of whether the derivative financial instrument used in a hedging transaction is highly effective in offsetting changes in fair value or cash flows of the hedged item, both at the inception of the hedge and on an ongoing basis.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The fair value of a derivative financial instrument used for hedging purposes is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months; otherwise, it is classified as a non-current asset or liability.

**1) Fair value hedges**

A fair value hedge is a hedge of the fair value of a recognized asset or liability or firm commitment and comprises currency forward contracts. The gain or loss from the changes in the fair value of the commodity swap and currency forward contracts is recognized in net income, together with changes in the fair value of the hedged item.

When the hedging instrument expires, the adjustment to the carrying amount of the hedged item is included in the initial measurement of the cost of the asset acquired or expense incurred.

**2) Cash flow hedges**

A cash flow hedge is a hedge of a particular risk associated with an asset or liability or a highly probable forecast transaction. Any gain or loss relating to the effective portion of changes in the fair value of interest rate swap contracts is recognized in other comprehensive income, with the ineffective portion recognized immediately in net income.

Gains and losses deferred through other comprehensive income are reclassified to net income at the time the hedged item affects net income. However, when a hedged item is a forecast transaction resulting in the recognition of a non-financial asset or non-financial liability, the gains and losses deferred through other comprehensive income, if any, are included in the initial cost or other carrying amount of the asset or liability.

When a hedging instrument expires, any cumulative gain or loss deferred through other comprehensive income will remain until the forecast transaction is recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred through other comprehensive income is immediately reclassified to net income.

**(iii) Fair value measurement**

Saudi Aramco measures financial instruments such as derivatives, financial assets at fair value through profit or loss, and available-for-sale financial assets, at fair value at each balance sheet date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are disclosed in the relevant notes.

Saudi Aramco uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(l) Income tax and zakat**

Income tax expense for the period comprises current and deferred tax expense. Income tax expense is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income. In this case, the related income tax is also recognized in other comprehensive income.

Current income tax expense is calculated primarily on the basis of the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law"). In addition, income tax expense results from taxable income generated by foreign subsidiaries.

Deferred income tax is provided in full, using the liability method at tax rates enacted or substantively enacted at the end of the reporting period and expected to apply when the related deferred income tax is realized or settled, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In estimating such tax consequences, consideration is given to expected future events. Deferred income tax is not provided on initial recognition of an asset or liability in a transaction, other than a business combination that, at the time of the transaction, does not affect either the accounting profit or the taxable profit.

Deferred income tax assets are recognized where future recovery is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax is not provided for taxes on possible future distributions of retained earnings of subsidiaries where the timing of the distribution can be controlled and it is probable that the retained earnings will be substantially reinvested by the entities.

Prior to 2017, certain domestic affiliates of Saudi Aramco were subject to zakat on shareholdings held by Saudi/GCC shareholders in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") and as such a provision for zakat was recorded in the Consolidated Statement of Income. Effective January 1, 2017, Kingdom resident companies with shares held directly or indirectly by the Company became subject to the Tax Law to the extent of the Company's ownership rather than zakat regulations.

*Significant accounting judgments and estimates*

Saudi Aramco establishes provisions, based on reasonable estimates, for potential claims by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as different interpretations of tax regulations by the taxable entity and the responsible tax authority and the outcome of previous negotiations. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in net income in the period in which the change occurs. Deferred income tax assets are recognized only to the extent it is considered probable that those assets are recoverable. This includes an assessment of when those assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the assets when they do reverse. This requires assumptions regarding future profitability. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred income tax assets as well as in the amounts recognized in net income in the period in which the change occurs.

Detailed taxation information, including current expense and deferred income tax assets and liabilities, is presented in Note 8.

**(m) Inventories**

Inventories are stated at the lower of cost or estimated net realizable value. Cost comprises all expenses to bring the inventory to their present location and condition and, for hydrocarbon inventories, is

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

determined using the first-in, first-out (“FIFO”) method. For materials and supplies inventories, cost is determined using the weighted average method less an allowance for disposal of obsolete and/or surplus materials and supplies. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**(n) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand and in banks together with all highly liquid investments purchased with original maturities of three months or less.

**(o) Financial liabilities**

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortized cost, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

**Saudi Aramco’s financial liabilities are:**

**(i) Financial liabilities at fair value through profit or loss**

Derivative financial liabilities are categorized as held for trading unless they are designated as hedges (Note 2(k)). Derivative financial liabilities held for trading are included in current liabilities under trade and other payables with gains or losses recognized in net income.

**(ii) Financial liabilities at amortized cost**

Financial liabilities other than financial liabilities at fair value through profit or loss are classified as financial liabilities measured at amortized cost net of transaction costs. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Discounting is omitted when the effect is immaterial. Financial liabilities measured at amortized cost are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial liabilities at amortized cost include trade and other payables and borrowings. Financial liabilities are disclosed separately from financial assets in the Consolidated Balance Sheet unless there is a right to offset.

**(p) Borrowing costs**

Any difference between borrowing proceeds and the redemption value is recognized as finance cost in the Consolidated Statement of Income over the term of the borrowing using the effective interest method.

Borrowing costs are expensed as incurred except for those costs directly attributable to the acquisition, construction or production of a qualifying asset which are capitalized as part of the cost of that asset until the asset is complete for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for intended use or sale.

**(q) Post-employment benefit plans**

**(i) Pension plans**

Funded pension plans are non-contributory plans for the majority of employees and are generally funded by payments by Saudi Aramco to independent trusts or other separate entities. Assets held by the independent trusts and other separate entities are held at their fair value. Valuations of both

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

funded and unfunded plans are performed annually by independent actuaries using the projected unit credit method. The valuations take into account employees' years of service, average or final pensionable remuneration, and are discounted to their present value using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit obligation.

The amount recognized in the Consolidated Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The periodic pension cost included in operating and general expenses in the Consolidated Statement of Income in respect of defined benefit pension plans primarily represents the increase in the actuarially assessed present value of the obligation for pension benefits based on employee service during the year and the net interest on the net defined benefit liability or asset. Net interest is calculated by multiplying the net defined benefit liability and plan assets by the discount rate applied to each plan at the beginning of each year, amended for changes to the defined benefit liability and plan assets as a result of benefit payments or contributions.

Past service costs, representing plan amendments, are recognized immediately as pension costs, regardless of the remaining vesting period.

Re-measurements representing actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, and the actual returns on plan assets excluding interest on plan assets, are credited or charged to equity, net of tax, through other comprehensive income.

For defined contribution plans where benefits depend solely on the amount contributed to or due to the employee's account and the returns earned from the investment of those contributions, plan cost is the amount contributed by or due from Saudi Aramco.

**(ii) Other post-employment benefits**

Saudi Aramco provides certain post-employment healthcare, life insurance and other benefits to retirees and certain former employees. The entitlement is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. To the extent these plans are not fully funded, a liability is recognized in the Consolidated Balance Sheet. Valuations of benefits are performed by independent actuaries.

Such plans follow the same accounting methodology as used for defined benefit pension plans.

*Significant accounting judgments and estimates*

The cost of defined benefit pension plans and post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions, which are reviewed annually. Key assumptions include discount rates, future salary increases, future healthcare costs, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Information about amounts reported in respect of defined benefit plans, assumptions applicable to the plans and their sensitivity to changes are presented in Note 18.

**(r) Provisions and contingencies**

Provisions are liabilities where the timing or amount of future expenditures is uncertain. Provisions are recognized when Saudi Aramco has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are recorded at the best estimate of the present value of the expenditure required to settle the obligation at the end of the reporting period. Amounts are discounted, unless the effect of discounting

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

is immaterial, using an appropriate discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense within finance costs in the Consolidated Statement of Income.

Saudi Aramco records a provision and corresponding asset for decommissioning activities in Upstream operations for well plugging and abandonment activities. The obligation for a well is recognized when it is drilled. Decommissioning provisions associated with Downstream facilities are generally not recognized, as the potential obligations cannot be measured, given their indeterminate settlement dates. The liability for decommissioning obligations will be recognized in the period when sufficient information becomes available to estimate a range of potential settlement dates. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows. The value of the obligation is added to the carrying amount of the related asset and amortized over the useful life of the asset. The increase in the provision due to the passage of time is recognized as finance costs in the Consolidated Statement of Income. Changes in future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows are recognized as a change in provision and related asset.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where the inflow of economic benefits is probable.

*Significant accounting judgments and estimates*

Most of Saudi Aramco's well plugging and abandonment activities are many years into the future with technology and costs constantly changing. Estimates of the amounts of a provision are recognized based on current legal and constructive requirements and cost associated to abandon using existing technologies. Actual costs are uncertain and estimates can vary as a result of changes in the scope of the project and/or relevant laws and regulation. The estimated timing of decommissioning may change due to certain factors, such as reserve life, a decision to terminate operations, or changes in legislation. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented. As a result, significant judgment is applied in the initial recognition and subsequent adjustment of the provision and the capitalized cost associated with decommissioning, plugging and abandonment obligations. Any subsequent adjustments to the provision are made prospectively. Detail on the particular assumptions applied when making certain non-current provisions is included in Note 19.

**(s) Foreign currency translation**

The USD is the functional currency of the Company and substantially all of its subsidiaries. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign currency monetary assets or liabilities are translated at each reporting date using the prevailing reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as a component of net income. Non-monetary assets and liabilities, other than those measured at fair value, are translated using the exchange rate at the date of the transactions.

*Significant accounting judgments and estimates*

The Company has determined that USD is the functional currency as a substantial amount of its products are traded in USD in international markets. However, a substantial amount of costs of the Company are denominated in the SAR which has been exchanged at a fixed rate to USD since 1986. A change in the fixed exchange rate could impact the recorded revenue, expenses, assets and liabilities of the Company.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(t) Presentation currency**

The Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows are translated from the functional currency into the presentation currency, SAR (Note 2(a)(i)). The financial position and results of the operations of the Company, subsidiaries, joint arrangements and associates that have a functional currency which is different from the presentation currency are translated at reporting dates exchange rates and the average exchange rates that approximate the cumulative effect of rates prevailing at the transaction dates, respectively. All resulting exchange differences are recognized through other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to the particular foreign operation is recognized in net income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reported date.

**(u) Revenue recognition and sales prices**

Revenue from sales of crude oil and related products is recognized when Saudi Aramco has transferred to the buyer the significant risks and rewards of ownership, the fair value of consideration received or receivable can be measured reliably, and it is probable that economic benefits associated with the sale will flow to Saudi Aramco. The significant risks and rewards of ownership are determined to be transferred to the buyer when title of crude oil and related products passes to the buyer, which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism. This transfer of ownership is dependent on the contractually agreed terms of the sale. Export sales are based on international market related prices. Certain sales delivered locally are based on international market related prices and are included in export sales reflected in revenue in the Consolidated Statement of Income. Local sales are based on prices established principally by the Government and are included in local sales.

**(v) Production royalties**

As discussed in Note 2(a)(iv), royalties to the Government are calculated based on a progressive scheme applied to crude oil and condensate production. An effective royalty rate is applied to production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 20% applied to prices up to \$70 per barrel, increasing to 40% applied to prices above \$70 per barrel and 50% applied to prices above \$100 per barrel. All such royalties are accounted for as an expense in the Consolidated Statement of Income and are deductible costs for Government income tax calculations.

**(w) Research and development**

Development costs that are expected to generate probable future economic benefits are capitalized as intangible assets and amortized over their estimated useful life. All other research and development costs are recognized in net income as incurred.

**(x) Reclassifications**

In 2017, management has changed the classification of certain costs from non-operating costs to operating costs. Accordingly, costs incurred in 2016 of SAR 5,467, previously disclosed as non-operating costs in the Consolidated Statement of Income, have been reclassified to selling, administrative and general costs in the current year. This reclassification has no impact on revenue and supplemental income, income before income taxes, net income or any balance sheet line item.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**3. Financial risk management**

Saudi Aramco operates and acquires goods and services in a number of countries but has limited exposure to financial risks. Financial risks include market risk (including foreign currency exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. Risk management is carried out primarily by a central treasury department. The adequacy of risk management policies is regularly reviewed with consideration of current activities and market conditions on a consolidated basis. Saudi Aramco uses derivative financial instruments with limited complexity to manage certain risk exposures and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

**(a) Financial risk factors**

**(i) Market risk**

- 1) Foreign currency exchange risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Saudi Aramco operates internationally but has limited exposure to financial risk due to changes in foreign currency exchange rates as most of the significant transactions are denominated in its functional currency (Note 2(s)), are linked to its functional currency or are hedged. Saudi Aramco’s limited foreign currency exchange risk arises from future commercial transactions or recognized assets or liabilities denominated in a currency that is not Saudi Aramco’s functional currency. In addition, a substantial amount of costs of Saudi Aramco are denominated in SAR which has been at a fixed rate to USD since 1986. A change in the fixed exchange rate would result in foreign exchange differences being recognized in the consolidated financial statements.

Saudi Aramco engages in hedging activities through the use of currency forward contracts and designated time deposits to manage its exchange exposure from significant transactions denominated in a foreign currency. The hedge ratio considers variability in potential outcomes, spot rates, as well as interest rates, and on a transaction by transaction basis can cover up to 100% of the exposure at inception.

The notional amounts of outstanding currency forward contracts and the book value of time deposits designated as hedging instruments are included in Note 26.

- 2) Price risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Price risk primarily stems from investment in securities and commodity trading.

**a) Investment in securities**

Saudi Aramco has limited exposure to price risk with such risk arising, primarily, from investment in securities carried at fair value.

Saudi Aramco regularly reviews its positions in investment in securities considering current and expected future economic trends.

The movement of the Saudi Tadawul All Share Index (“TASI”) and Japanese Tokyo Stock Price Index (“TOPIX”) and the changes in equity due to changes in the fair value, including exchange rate fluctuations of available-for-sale financial assets, are summarized below.

Index	Percentage increase (decrease) in index		Increase (decrease) in equity	
	2017	2016	2017	2016
TASI .....	0.2%	4.3%	(221)	297
TOPIX .....	19.7%	(1.9)%	905	230

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**

*(All amounts in millions of Saudi Riyals unless otherwise stated)*

At December 31, 2017 and 2016, a change in fair value due to a movement of 5% in the unit price of mutual and hedge funds would result in a change in equity of SAR 210 and SAR 168, respectively.

**b) Commodity swaps**

Saudi Aramco trades refined, natural gas liquid, and bulk petrochemical products and uses commodity swaps as a means of managing price and timing of risks arising from this trading. In effecting these transactions, Saudi Aramco operates within policies and procedures designed to ensure that risks, including those related to the default of counterparties, are managed within authorized limits. The notional amounts of outstanding commodity swap contracts are included in Note 26.

**3) Interest rate risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Saudi Aramco's interest-bearing assets consist primarily of short-term time deposits and debt securities classified as available-for-sale financial assets. As a result, income and operating cash flows are substantially independent of changes in market interest rates.

However, Saudi Aramco is exposed to interest rate risk from changes in interest rates that affect the fair value or future cash flows of financial instruments, principally borrowings, issued at variable and fixed rates. Borrowings issued at variable rates expose Saudi Aramco to cash flow interest rate risk which is partially offset by short-term time deposits and debt securities held at variable rates. Borrowings issued at fixed rates expose Saudi Aramco to fair value interest rate risk. Saudi Aramco may enter into interest rate swap agreements as part of its overall strategy to manage the interest rate risk on its debt.

At December 31, 2017 and 2016, a change of 1% in market interest rates, with all other variables held constant, would result in a net change of SAR 307 and SAR 86, respectively, in Saudi Aramco's income before income taxes as a result of the effect of higher or lower market interest rates on interest-bearing assets partially offset by floating rate borrowings.

The notional amounts of interest rate swap contracts are included in Note 26.

**(ii) Credit risk**

Credit risk is the risk that counterparties might not fulfill their contractual payment obligations towards an entity.

Saudi Aramco is exposed to credit risk related to its counterparties not performing or honoring their obligations which would result in financial loss. Credit risk arises from credit exposures on trade receivables as well as from cash and cash equivalents, short-term-investments, certain available-for-sale financial assets, and derivatives with financial institutions. The maximum exposure to credit risk is the carrying value of these assets.

Saudi Aramco's trade receivables arise from a global customer base which limits geographic concentrations of credit risk. Moreover, a credit risk policy is in place to ensure credit limits are extended to creditworthy counterparties and risk mitigation measures are defined and implemented accordingly. Saudi Aramco performs ongoing evaluations of its counterparty's financial standing and takes additional measures to mitigate credit risk when considered appropriate by means of letter of credits, bank guarantees or parent company guarantees.

In addition, the credit policy limits the amount of credit exposure to any individual counterparty based on their credit rating as well as other factors. Moreover, Saudi Aramco's investment policy limits exposure to credit risk arising from investment activities. The policy requires that cash and cash equivalents and short-term investments be invested with a diversified group of financial institutions with acceptable credit ratings. Saudi Aramco ensures that each counterparty is of an

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

acceptable credit quality by relying on quantitative and qualitative measures compiled from internal and third party rating models. At the end of 2017, all of the short-term investments were with financial institutions assigned a long-term credit rating of “BBB+” (2016: “BBB+”) or above.

**(iii) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Saudi Aramco’s liquidity risk management includes maintaining sufficient cash and cash equivalents and ensuring the availability of incremental funding through credit facilities (Note 17). Management also monitors and forecasts Saudi Aramco’s liquidity requirements based on current and non-current expected cash flows.

Saudi Aramco invests surplus cash in current accounts, time deposits, money market deposits, government repurchase agreements and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to meet forecasted cash flow requirements. Saudi Aramco prioritizes security and liquidity over yield.

Note 17 analyzes Saudi Aramco’s borrowings into relevant maturity groupings based on the balances associated with each contractual maturity date at the end of the reporting period.

**(b) Capital Structure Management**

Saudi Aramco seeks to maintain a prudent capital structure, comprising of borrowings and Government’s equity, to support its capital investment plans and maintain a sustainable, growing dividend profile. Maintaining sufficient financial flexibility is considered strategically important to mitigate industry cyclicality while also enabling the pursuit of organic and inorganic investment opportunities. Borrowings or dividends will result in an adjustment to the Company’s capital structure.

**(c) Casualty loss risk retention**

Saudi Aramco’s casualty loss risk strategy includes a risk retention and insurance program, including providing coverage to certain joint arrangements and associates limited to Saudi Aramco’s percentage interest in the relevant entity. Current maximum risk retention is SAR 1,875 per loss event (2016: SAR 1,875) and will be reached in the event a loss event totals SAR 1,875 (2016: SAR 1,875) or more. Various insurance limits apply of which the risk retention forms a part. Should a credible loss event occur, the maximum insurance limit above retention is SAR 4,875 (2016: SAR 4,875) per event dependent on the circumstances.

**(d) Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco’s financial assets and liabilities are not materially different from their carrying amounts at the end of the reporting period.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The following table presents Saudi Aramco's assets and liabilities that are measured at fair value at the years ended December 31, based on the fair value measurement hierarchy disclosed in Note 2(k)(iii).

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2017:</b>				
Investment in securities:				
Available-for-sale equity investments .....	8,940	1,085	4,438	14,463
Available-for-sale debt securities .....	19	3,812	—	3,831
Financial assets through profit or loss .....	—	3	845	848
	<u>8,959</u>	<u>4,900</u>	<u>5,283</u>	<u>19,142</u>
Other current assets:				
Interest rate swaps .....	—	122	—	122
Commodity swaps .....	—	253	—	253
Currency forward contracts .....	—	93	—	93
	<u>—</u>	<u>468</u>	<u>—</u>	<u>468</u>
<b>Total assets</b> .....	<b><u>8,959</u></b>	<b><u>5,368</u></b>	<b><u>5,283</u></b>	<b><u>19,610</u></b>
<b>2016:</b>				
Investment in securities:				
Available-for-sale equity investments .....	8,480	956	3,664	13,100
Available-for-sale debt securities .....	10	3,919	—	3,929
Financial assets through profit or loss .....	—	4	637	641
	<u>8,490</u>	<u>4,879</u>	<u>4,301</u>	<u>17,670</u>
Other current assets:				
Interest rate swaps .....	—	76	—	76
Commodity swaps .....	—	71	—	71
Currency forward contracts .....	—	18	—	18
	<u>—</u>	<u>165</u>	<u>—</u>	<u>165</u>
<b>Total assets</b> .....	<b><u>8,490</u></b>	<b><u>5,044</u></b>	<b><u>4,301</u></b>	<b><u>17,835</u></b>
<b>Liabilities</b>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2017:</b>				
Derivative financial liabilities through profit and loss .....	—	26	91	117
Commodity swaps .....	—	544	—	544
Currency forward contracts .....	—	18	—	18
Interest rate swaps .....	—	45	—	45
	<u>—</u>	<u>633</u>	<u>91</u>	<u>724</u>
<b>2016:</b>				
Derivative financial liabilities through profit and loss .....	—	158	185	343
Commodity swaps .....	—	211	—	211
Currency forward contracts .....	—	4	—	4
Interest rate swaps .....	—	45	—	45
	<u>—</u>	<u>418</u>	<u>185</u>	<u>603</u>

Realized and unrealized losses of SAR 560 from commodity swap financial instruments are recognized in net income for the years ended December 31, 2017 (2016: realized and unrealized losses of SAR 825).

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The valuation techniques for Saudi Aramco's investment in securities are described in Note 10. The changes in Level 3 instruments for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
<b>January 1</b> .....	<b>4,301</b>	3,926
Net additions .....	<b>683</b>	336
Realized (loss)/gain .....	<b>(8)</b>	31
Net movement in unrealized fair value gain .....	<b>307</b>	8
<b>December 31</b> .....	<b><u>5,283</u></b>	<u>4,301</u>

#### 4. Operating segments

Saudi Aramco operates in the oil and gas industry within the Kingdom and has interests in refining, distribution, marketing and storage facilities outside of the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At December 31 2017, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into Corporate: Upstream activities consist of exploring for, developing and producing crude oil, condensate, natural gas and natural gas liquids. Downstream activities consist primarily of refining, manufacturing of petrochemicals and marketing of crude oil, condensate, natural gas liquids, LPG, sulphur and chemicals. Corporate activities include primarily operational and business support services including engineering services, capital planning, project management, environment services, human resources, finance and IT activities not already allocated. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by Saudi Aramco in reporting segments internally are the same as those contained in Note 2 of the consolidated financial statements.

Information by segments is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>2017</b>					
External revenue .....	<b>574,131</b>	<b>260,642</b>	<b>1,210</b>	—	<b>835,983</b>
Supplemental income .....	<b>29,121</b>	<b>121,055</b>	—	—	<b>150,176</b>
Inter-segment revenue .....	<b>213,382</b>	<b>29,415</b>	—	<b>(242,797)</b>	—
Share of results from joint ventures and associates .....	<b>(2)</b>	<b>(910)</b>	<b>(44)</b>	—	<b>(956)</b>
Finance and other income .....	<b>51</b>	<b>727</b>	<b>1,121</b>	<b>(330)</b>	<b>1,569</b>
Depreciation and amortization .....	<b>(25,788)</b>	<b>(9,340)</b>	<b>(1,766)</b>	—	<b>(36,894)</b>
Impairments .....	—	<b>(145)</b>	<b>(136)</b>	—	<b>(281)</b>
Finance costs .....	<b>(16)</b>	<b>(1,734)</b>	<b>(670)</b>	<b>330</b>	<b>(2,090)</b>
Income (loss) before taxes .....	<b>574,053</b>	<b>19,128</b>	<b>(11,743)</b>	—	<b>581,438</b>
Income taxes (expense) credit .....	<b>(295,316)</b>	<b>(7,777)</b>	<b>6,274</b>	—	<b>(296,819)</b>
Net income (loss) .....	<b>278,737</b>	<b>11,351</b>	<b>(5,469)</b>	—	<b>284,619</b>
Capital expenditures—cash basis .....	<b>82,508</b>	<b>35,569</b>	<b>3,878</b>	—	<b>121,955</b>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>2016</b>					
External revenue . . . . .	360,963	142,550	1,083	—	504,596
Inter-segment revenue . . . . .	164,892	25,184	—	(190,076)	—
Share of results from joint ventures and associates . . . . .	(232)	(718)	(29)	—	(979)
Finance and other income . . . . .	27	914	1,035	(367)	1,609
Depreciation and amortization . . . . .	(24,209)	(7,692)	(1,714)	—	(33,615)
Impairments . . . . .	—	(13,646)	—	—	(13,646)
Finance costs . . . . .	—	(1,273)	(442)	361	(1,354)
Income (loss) before taxes . . . . .	431,620	(110,759)	(15,885)	—	304,976
Income taxes (expense) credit . . . . .	(368,782)	99,530	13,997	—	(255,255)
Net income (loss) . . . . .	62,838	(11,229)	(1,888)	—	49,721
Capital expenditures—cash basis . . . . .	68,205	30,971	4,170	—	103,346

Information by geographical area is as follows:

	<u>In Kingdom</u>	<u>Out of Kingdom</u>	<u>Total</u>
<b>2017</b>			
External revenue . . . . .	<b>696,477</b>	<b>139,506</b>	<b>835,983</b>
Property, plant and equipment, intangible assets, investment in joint ventures and associates . . . . .	<b>722,936</b>	<b>79,817</b>	<b>802,753</b>
<b>2016</b>			
External revenue . . . . .	442,345	62,251	504,596
Property, plant and equipment, intangible assets, investment in joint ventures and associates . . . . .	641,381	53,085	694,466

Sales to external customers by region are based on the location of the Saudi Aramco entity which made the sale.

Property, plant and equipment, intangible assets and investment in joint ventures and associates by region are based on the location of the Saudi Aramco entity holding the assets. See Note 5 for additional information on 2016 impairments.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**5. Property, plant and equipment**

	Crude oil facilities	Refinery facilities	Gas & NGL facilities	General service plant	Construction in progress	Total
<b>Cost</b>						
January 1, 2017	440,119	130,909	306,225	71,888	155,321	1,104,462
Acquisitions (Note 30)	—	33,983	—	—	—	33,983
Additions	3,741	997	486	2,118	109,143	116,485
Construction completed	25,538	2,275	24,277	6,971	(59,061)	—
Impairments	—	—	—	—	(113)	(113)
Currency translation differences	—	3,998	—	1	1,222	5,221
Transfers	(75)	24	(1)	(1,268)	(2,655)	(3,975)
Transfer of exploration and evaluation assets	—	—	—	—	2,504	2,504
Retirements and sales	(725)	(121)	(1,507)	(759)	(113)	(3,225)
December 31, 2017	468,598	172,065	329,480	78,951	206,248	1,255,342
<b>Accumulated depreciation</b>						
January 1, 2017	(222,824)	(58,988)	(136,601)	(50,683)	—	(469,096)
Additions	(15,335)	(6,471)	(11,675)	(2,683)	—	(36,164)
Impairments	—	(32)	—	(136)	—	(168)
Currency translation differences	—	(1,906)	—	—	—	(1,906)
Transfers	(295)	(25)	(296)	970	—	354
Retirements and sales	725	99	1,215	733	—	2,772
December 31, 2017	(237,729)	(67,323)	(147,357)	(51,799)	—	(504,208)
<b>Property, plant and equipment—net,</b>						
December 31, 2017	230,869	104,742	182,123	27,152	206,248	751,134
<b>Cost</b>						
January 1, 2016	405,206	127,069	279,626	71,284	130,159	1,013,344
Additions	5,989	1,710	919	86	94,654	103,358
Construction completed	31,778	3,533	29,618	3,844	(68,773)	—
Impairments	—	—	—	—	(11,520)	(11,520)
Currency translation differences	—	(953)	—	—	(221)	(1,174)
Transfers	(2,291)	(296)	(3,814)	(2,591)	5,926	(3,066)
Transfer of exploration and evaluation assets	—	—	—	—	5,111	5,111
Retirements and sales	(563)	(154)	(124)	(735)	(15)	(1,591)
December 31, 2016	440,119	130,909	306,225	71,888	155,321	1,104,462
<b>Accumulated depreciation</b>						
January 1, 2016	(208,964)	(52,358)	(125,749)	(50,858)	—	(437,929)
Additions	(14,779)	(5,089)	(10,852)	(2,449)	—	(33,169)
Impairments	—	(2,126)	—	—	—	(2,126)
Currency translation differences	—	458	—	—	—	458
Transfers	371	11	(60)	1,934	—	2,256
Retirements and sales	548	116	60	690	—	1,414
December 31, 2016	(222,824)	(58,988)	(136,601)	(50,683)	—	(469,096)
<b>Property, plant and equipment—net,</b>						
December 31, 2016	217,295	71,921	169,624	21,205	155,321	635,366

During 2016, Saudi Aramco recognized impairments of SAR 13,646 on certain domestic refinery facilities including a facility under construction. The impairments resulted from VIU calculations that were less than the carrying values of the facilities at December 31, 2016.

Finance lease assets with net book values of SAR 4,945 (2016: SAR 5,198) and SAR 4,250 (2016: SAR 3,635) are included in Refinery facilities and General service plant, respectively.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**6. Intangible assets**

	Exploration and evaluation	Brands and trademarks	Franchise/ customer relationships	Computer software	Other	Total
<b>Cost</b>						
January 1, 2017	11,258	2,330	1,233	3,086	581	18,488
Acquisitions (Note 30)	—	2,438	—	439	1,008	3,885
Additions	12,393	—	—	393	—	12,786
Currency translation differences	—	283	148	—	—	431
Transfers	3,016	(120)	(63)	183	—	3,016
Transfer of exploration and evaluation assets	(2,504)	—	—	—	—	(2,504)
Write-offs	(8,155)	—	—	—	—	(8,155)
December 31, 2017	<u>16,008</u>	<u>4,931</u>	<u>1,318</u>	<u>4,101</u>	<u>1,589</u>	<u>27,947</u>
<b>Accumulated amortization:</b>						
January 1, 2017	—	(513)	(263)	(2,112)	—	(2,888)
Additions	—	(302)	(168)	(227)	(33)	(730)
Currency translation differences	—	(58)	(63)	—	—	(121)
Transfers	—	213	(63)	(12)	—	138
December 31, 2017	<u>—</u>	<u>(660)</u>	<u>(557)</u>	<u>(2,351)</u>	<u>(33)</u>	<u>(3,601)</u>
<b>Intangible assets—net, December 31, 2017</b>	<b><u>16,008</u></b>	<b><u>4,271</u></b>	<b><u>761</u></b>	<b><u>1,750</u></b>	<b><u>1,556</u></b>	<b><u>24,346</u></b>
<b>Cost</b>						
January 1, 2016	12,856	2,457	1,301	192	180	16,986
Additions	9,652	38	19	146	401	10,256
Currency translation differences	—	(71)	(38)	(8)	—	(117)
Transfers	—	(86)	(45)	2,756	—	2,625
Transfer of exploration and evaluation assets	(5,111)	—	—	—	—	(5,111)
Write-offs	(6,139)	(8)	(4)	—	—	(6,151)
December 31, 2016	<u>11,258</u>	<u>2,330</u>	<u>1,233</u>	<u>3,086</u>	<u>581</u>	<u>18,488</u>
<b>Accumulated amortization</b>						
January 1, 2016	—	(315)	(162)	(16)	—	(493)
Additions	—	(217)	(109)	(120)	—	(446)
Currency translation differences	—	19	8	4	—	31
Transfers	—	—	—	(1,980)	—	(1,980)
December 31, 2016	<u>—</u>	<u>(513)</u>	<u>(263)</u>	<u>(2,112)</u>	<u>—</u>	<u>(2,888)</u>
<b>Intangible assets—net, December 31, 2016</b>	<b><u>11,258</u></b>	<b><u>1,817</u></b>	<b><u>970</u></b>	<b><u>974</u></b>	<b><u>581</u></b>	<b><u>15,600</u></b>

Other intangible assets comprise of right of use assets of SAR 811 (2016: nil), patents and intellectual property of SAR 368 (2016: SAR 401) and goodwill of SAR 377 (2016: SAR 180).

Cash used for exploration and evaluation operating activities in 2017 was SAR 5,203 (2016: SAR 4,296) and expenditures for investing activities were SAR 12,393 (2016: SAR 9,652).



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**7. Investment in joint ventures and associates**

Company	Equity Ownership 2017/ 2016	Principal place of business	Nature of activities	Carrying amount as of December 31, 2017	Carrying amount as of December 31, 2016
Motiva Enterprises LLC ("Motiva") <sup>(1)</sup> . . . . .	50%	United States	Refining/ marketing	—	19,526
Sadara Chemical Company ("Sadara") <sup>(2)(3)(7)</sup> . . . . .	65%	Saudi Arabia	Petrochemical	11,729	9,866
Arlanxeo Holding B.V. ("Arlanxeo") <sup>(4)</sup> . . . . .	50%	Netherlands	Synthetic rubber	5,419	5,160
Rabigh Refining and Petrochemical Company ("Petro Rabigh") <sup>(5)(7)</sup> . . . . .	37.5%	Saudi Arabia	Refining/ petrochemical	2,525	2,348
Fujian Refining and Petrochemical Company Limited ("FREP") . . . . .	25%	People's Republic of China	Refining/ petrochemical	2,477	1,976
National Shipping Company of Saudi Arabia ("Bahri") <sup>(5)</sup> . . . . .	20%	Saudi Arabia	Global logistics services	2,120	2,265
Jubail and Yanbu Electricity and Water Utility Company ("Marafiq") . . . . .	24.8%	Saudi Arabia	Utilities	1,687	1,643
Sinopec SenMei (Fujian) Petroleum Company Limited ("SSPC") . . . . .	22.5%	People's Republic of China	Marketing/ petrochemical	471	428
First Coast Energy LLP <sup>(2)</sup> . . . . .	50% / Nil	United States	Marketing	298	—
S-Oil TOTAL Lubricants Limited <sup>(2)</sup> . . . . .	50%	South Korea <sup>(6)</sup>	Lubricants production/sale	156	142
International Maritime Industries ("IMI") <sup>(3)</sup> . . . . .	50.1% / Nil	Saudi Arabia	Maritime	146	—
Saudi Arabian Industrial Investment Company ("IIC") . . . . .	25%	Saudi Arabia	Investment	145	97
GCC Electrical Equipment Testing Lab ("GCC Lab") . . . . .	20%	Saudi Arabia	Inspection	67	19
Star Enterprises LLC ("Star") <sup>(2)</sup> . . . . .	50%	United States	Pension Administration	33	30
				<u>27,273</u>	<u>43,500</u>

- (1) As a result of the transaction described in Note 30(a)(i), on May 1, 2017, Motiva became a wholly-owned subsidiary of the Company.  
(2) Joint arrangements that qualify as joint ventures.  
(3) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint venture does not qualify as a subsidiary and has not been consolidated.  
(4) Effective share of results under equity accounting is 49.9% resulting from non-controlling interest in associate's consolidated financial statements. See Note 30(c).  
(5) Listed company.  
(6) Excluded from the table is 18% ownership in associate, Korea Oil Terminal Company, Ltd. with nil carrying value at December 31, 2017 (2016: nil).  
(7) The Company has provided guarantees as described in Note 25.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The components of the change in the investment in joint ventures and associates for the year ended December 31, 2017 and 2016 are as follows:

	Joint Ventures		Associates	
	2017	2016	2017	2016
<b>January 1</b> .....	<b>29,564</b>	22,841	<b>13,936</b>	8,138
Share of results from joint ventures and associates .....	<b>(2,079)</b>	(1,947)	<b>1,123</b>	968
Additional investment .....	<b>5,349</b>	8,543	<b>317</b>	38
Investment in Arlanxeo (Note 30(c)) .....	<b>—</b>	—	<b>—</b>	5,340
Derecognition of investment in Motiva (Note 30(a)(i)) .....	<b>(21,086)</b>	—	<b>—</b>	—
Distributions .....	<b>(116)</b>	(38)	<b>(724)</b>	(240)
Change in elimination of profit in inventory .....	<b>569</b>	102	<b>(39)</b>	(83)
Share of other comprehensive income (losses) .....	<b>15</b>	63	<b>444</b>	(225)
<b>December 31</b> .....	<b>12,216</b>	29,564	<b>15,057</b>	13,936

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investment in Saudi Aramco's financial statements at December 31, 2017 are set out below:

**Summarized Balance Sheet**  
**At December 31, 2017**

	Motiva	Sadara	FREP	Arlanxeo	Other	Total
<b>Current assets:</b>						
Cash and cash equivalents .....	—	506	3,311	1,279	8,566	13,662
Other .....	—	7,583	6,352	4,960	14,305	33,200
Total current assets .....	—	8,089	9,663	6,239	22,871	46,862
<b>Non-current assets</b> .....	—	71,364	11,768	7,368	95,366	185,866
<b>Current liabilities:</b>						
Financial liabilities (excluding trade and other payables) .....	—	2,757	653	615	5,805	9,830
Other .....	—	6,172	2,899	2,033	16,077	27,181
Total current liabilities .....	—	8,929	3,552	2,648	21,882	37,011
<b>Non-current liabilities:</b>						
Financial liabilities (excluding trade and other payables) .....	—	52,084	7,838	195	66,720	126,837
Other .....	—	326	135	1,436	1,665	3,562
Total non-current liabilities .....	—	52,410	7,973	1,631	68,385	130,399
<b>Net assets</b> .....	—	18,114	9,906	9,328	27,970	65,318
Saudi Aramco interest .....	—	65%	25%	50%	20%-50.1%	
<b>Saudi Aramco share</b> .....	—	11,774	2,477	4,664	7,589	26,504
Elimination of profit in inventory ...	—	34	—	—	(310)	(276)
Fair value and other adjustments ....	—	(79)	—	755	369	1,045
<b>Investment balance,</b>						
<b>December 31</b> .....	—	11,729	2,477	5,419	7,648	27,273

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**Summarized Statement of Comprehensive Income**  
**Year ended December 31, 2017**

	<u>Motiva</u>	<u>Sadara</u>	<u>FREP</u>	<u>Arlanxeo</u>	<u>Other</u>	<u>Total</u>
Revenue .....	46,121	8,434	27,401	13,676	56,105	151,737
Depreciation and amortization .....	1,275	3,146	1,433	1,271	3,829	10,954
Conventional Interest income .....	—	4	116	—	143	263
Interest expense .....	188	2,036	476	113	1,283	4,096
Income tax expense .....	146	8	945	150	346	1,595
Net income (loss) .....	1,804	(4,841)	2,854	(8)	2,194	2,003
Other comprehensive income (loss) .....	109	(4)	—	536	(1)	640
Total comprehensive income (loss) .....	<u>1,913</u>	<u>(4,845)</u>	<u>2,854</u>	<u>528</u>	<u>2,193</u>	<u>2,643</u>

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

	<u>Conventional financial assets as of December 31, 2017</u>	<u>Conventional financial liabilities as of December 31, 2017</u>	<u>Interest income from conventional financial assets for the year ended December 31, 2017</u>
Sadara .....	3,555	46,459	—
FREP .....	6,311	11,299	—
Arlanxeo .....	1,703	2,130	—
Marafiq .....	2,055	9,836	41
IIC .....	596	38	4
IMI .....	375	11	—
GCC Lab .....	146	—	4
First Coast Energy LLP .....	26	645	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investment in Saudi Aramco's financial statements at December 31, 2016 are set out below:

**Summarized Balance Sheet**  
**At December 31, 2016**

	<u>Motiva</u>	<u>Sadara</u>	<u>FREP</u>	<u>Arlanxeo</u>	<u>Other</u>	<u>Total</u>
<b>Current assets:</b>						
Cash and cash equivalents . . . . .	1,616	420	4,418	349	7,286	14,089
Other . . . . .	<u>14,209</u>	<u>3,135</u>	<u>5,555</u>	<u>5,059</u>	<u>13,079</u>	<u>41,037</u>
Total current assets . . . . .	<u>15,825</u>	<u>3,555</u>	<u>9,973</u>	<u>5,408</u>	<u>20,365</u>	<u>55,126</u>
<b>Non-current assets</b> . . . . .	<u>54,454</u>	<u>70,841</u>	<u>12,349</u>	<u>7,530</u>	<u>94,095</u>	<u>239,269</u>
<b>Current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	2,100	105	—	1,028	5,115	8,348
Other . . . . .	<u>10,974</u>	<u>5,758</u>	<u>3,473</u>	<u>1,939</u>	<u>13,353</u>	<u>35,497</u>
Total current liabilities . . . . .	<u>13,074</u>	<u>5,863</u>	<u>3,473</u>	<u>2,967</u>	<u>18,468</u>	<u>43,845</u>
<b>Non-current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	11,569	53,036	10,815	188	68,719	144,327
Other . . . . .	<u>5,483</u>	<u>341</u>	<u>130</u>	<u>1,129</u>	<u>1,029</u>	<u>8,112</u>
Total non-current liabilities . . . . .	<u>17,052</u>	<u>53,377</u>	<u>10,945</u>	<u>1,317</u>	<u>69,748</u>	<u>152,439</u>
<b>Net assets</b> . . . . .	<u>40,153</u>	<u>15,156</u>	<u>7,904</u>	<u>8,654</u>	<u>26,244</u>	<u>98,111</u>
Saudi Aramco interest . . . . .	50%	65%	25%	50%	20%-50%	
<b>Saudi Aramco share</b> . . . . .	20,077	9,851	1,976	4,327	6,901	43,132
Elimination of profit in inventory . . . . .	(551)	15	—	—	(270)	(806)
Fair value and other adjustments . . . . .	—	—	—	833	341	1,174
<b>Investment balance, December 31</b> . . . . .	<u>19,526</u>	<u>9,866</u>	<u>1,976</u>	<u>5,160</u>	<u>6,972</u>	<u>43,500</u>

**Summarized Statement of Comprehensive Income**  
**Year ended December 31, 2016**

	<u>Motiva</u>	<u>Sadara</u>	<u>FREP</u>	<u>Arlanxeo</u>	<u>Other</u>	<u>Total</u>
Revenue . . . . .	116,531	1,575	23,595	8,670	52,508	202,879
Depreciation and amortization . . . . .	3,743	1,313	1,451	829	3,289	10,625
Conventional Interest income . . . . .	—	—	75	—	360	435
Interest expense . . . . .	521	964	525	79	1,020	3,109
Income tax expense . . . . .	—	—	889	109	300	1,298
Net income (loss) . . . . .	3,218	(5,505)	2,723	(195)	2,850	3,091
Other comprehensive loss . . . . .	<u>(165)</u>	<u>154</u>	<u>—</u>	<u>(161)</u>	<u>—</u>	<u>(172)</u>
Total comprehensive income (loss) . . . . .	<u>3,053</u>	<u>(5,351)</u>	<u>2,723</u>	<u>(356)</u>	<u>2,850</u>	<u>2,919</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

Saudi Aramco's share of the fair value of the associates listed in their respective national stock exchanges at December 31 together with their carrying value at those dates is as follows:

	<u>Fair value</u>		<u>Carrying value</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Petro Rabigh .....	<b>5,401</b>	3,863	<b>2,525</b>	2,348
Bahri .....	<b>2,479</b>	3,416	<b>2,120</b>	2,265

**8. Income taxes**

**(a) Saudi Arabian Government income tax rates**

As disclosed in Note 2(a)(ii), effective January 1, 2017, the income tax rate of the Company decreased from 85% to 50%. As of January 1, 2017, net deferred tax assets were reduced by SAR 24,133 to reflect the new income tax rate of which SAR 10,579 was recognized in the Consolidated Statement of Income and SAR 13,554 was recognized in the Consolidated Statement of Comprehensive Income. Saudi Arabian Government income tax expense is based on income arising in Saudi Arabia.

Effective January 1, 2017, the Company's investments in shares of resident capital companies is subject to the Tax Law to the extent of the Company's ownership. Previously, the Company's investments in those entities was subject to zakat in accordance with the regulations of the GAZT. Implementation guidance for the change was received by the Company on February 27, 2018 and the impact of the change is not material to Saudi Aramco's consolidated financial statements.

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

	<u>2017</u>	<u>2016</u>
Income before taxes .....	<b>581,438</b>	304,976
Income taxes at the Kingdom's statutory tax rate .....	<b>290,719</b>	259,230
Tax effect of:		
Impact of new income tax rate on net deferred tax assets .....	<b>10,579</b>	—
Income not subject to tax at statutory rates and other .....	<b>(4,479)</b>	(3,975)
	<b>296,819</b>	255,255

**(b) Income tax expense**

	<u>2017</u>	<u>2016</u>
Current income tax—Saudi Arabian Government .....	<b>262,296</b>	266,786
Current income tax—Foreign .....	<b>1,415</b>	1,395
Deferred income tax—Saudi Arabian Government:		
Impact of change in income tax rate .....	<b>10,579</b>	—
Charge (credit) for the period .....	<b>23,205</b>	(13,586)
Deferred income tax—Foreign .....	<b>(676)</b>	660
	<b>296,819</b>	255,255

Saudi Aramco paid foreign taxes of SAR 1,052 and SAR 1,372 for the years ended December 31, 2017 and 2016, respectively.

Income tax expense recorded through other comprehensive income was SAR 17,167 (Note 16) for the year ended December 31, 2017 (2016: credit of SAR 4,305).

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

(c) **Saudi Arabian Government income tax obligation**

	<u>2017</u>	<u>2016</u>
<b>January 1</b> .....	<b>28,541</b>	23,858
Provided during the year .....	<b>262,296</b>	266,786
Payments during the year .....	<b>(176,961)</b>	(240,042)
Settlements (Note 23(a)) .....	<b>(56,197)</b>	—
Deduction of post-employment benefit plan cash contributions .....	<b>—</b>	(22,061)
<b>December 31</b> .....	<b>57,679</b>	28,541

Prior to 2016, Saudi Aramco treated employee benefit periodic costs recognized in the income statement as a tax deductible expense. Further, accumulated remeasurement net losses of post-employment benefit obligations were deducted for tax purposes over the remaining average expected service of the participants in the plan. Beginning in 2016, Saudi Aramco deducted for tax purposes the cash contributions to its employee benefit plans. As a result of this change in tax treatment, a one-time adjustment of SAR 22,061 was made to deduct all contributions up to 2016 not previously deducted.

(d) **Deferred income taxes**

	<u>2017</u>	<u>2016</u>
<b>Deferred income tax assets:</b>		
Saudi Arabian Government .....	<b>13,606</b>	64,508
<b>Deferred income tax liabilities:</b>		
U.S. Federal and State .....	<b>2,430</b>	3,315
Other foreign .....	<b>3,879</b>	2,854
	<b>6,309</b>	<b>6,169</b>
<b>Net deferred income tax assets</b> .....	<b>7,297</b>	58,339

The gross movement of the net deferred income tax position is as follows:

	<u>2017</u>	<u>2016</u>
<b>January 1</b> .....	<b>58,339</b>	63,326
Current period net (charge) credit to income .....	<b>(33,108)</b>	12,926
Adjustments to equity—Other reserves .....	<b>(17,167)</b>	(17,756)
Other adjustments .....	<b>(767)</b>	(157)
<b>December 31</b> .....	<b>7,297</b>	58,339
	<u>2017</u>	<u>2016</u>
Deferred income tax to be recovered after more than 12 months .....	<b>1,259</b>	57,158
Deferred income tax to be recovered within 12 months .....	<b>6,038</b>	1,181
<b>Net deferred income tax assets</b> .....	<b>7,297</b>	58,339

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The movement in deferred income tax assets and liabilities for the year is as follows:

<u>Deferred income tax assets (liabilities)</u>	<u>Fair value of available-for-sale financial assets</u>	<u>Property plant and equipment and intangibles</u>	<u>Post- employment benefit obligations</u>	<u>Provisions and other</u>	<u>Total</u>
<b>January 1, 2016</b> .....	(2,942)	(544)	55,707	16,719	68,940
Current period credits to income .....	—	12,116	—	1,470	13,586
Other reserves charges .....	(1,724)	—	(16,032)	—	(17,756)
Other adjustments .....	—	—	—	(262)	(262)
<b>December 31, 2016</b> .....	(4,666)	11,572	39,675	17,927	64,508
Impact of new income tax rate .....	<b>1,921</b>	<b>(4,765)</b>	<b>(15,475)</b>	<b>(5,814)</b>	<b>(24,133)</b>
Current period (charges) credits to income .....	—	<b>(27,604)</b>	<b>(992)</b>	<b>5,391</b>	<b>(23,205)</b>
Other reserves credits (charges) .....	<b>223</b>	—	<b>(3,797)</b>	—	<b>(3,574)</b>
Other adjustments .....	—	—	—	<b>10</b>	<b>10</b>
<b>December 31, 2017</b> .....	<u><b>(2,522)</b></u>	<u><b>(20,797)</b></u>	<u><b>19,411</b></u>	<u><b>17,514</b></u>	<u><b>13,606</b></u>

Prior to 2017, the Company was permitted by GAZT to use its accounting depreciation rates for tax purposes. Effective January 1, 2017, the Company began using depreciation rates provided in the Tax Law instead of the rates used for accounting purposes resulting in the recognition of deferred taxes.

Note 8(a) provides additional information on deferred tax assets.

<u>Deferred income tax liabilities (assets)</u>	<u>Provisions and other</u>	<u>Investment in joint ventures</u>	<u>Undistributed earnings</u>	<u>Loss carryforward</u>	<u>Total</u>
<b>January 1, 2016</b> .....	2,938	5,039	540	(2,903)	5,614
Current period (credits) charges to income .....	(1,371)	1,620	177	234	660
Other adjustments .....	(105)	—	—	—	(105)
<b>December 31, 2016</b> .....	1,462	6,659	717	(2,669)	6,169
Current period (credits) charges to income .....	<b>(1,199)</b>	<b>67</b>	<b>168</b>	<b>288</b>	<b>(676)</b>
Other reserves credits .....	<b>39</b>	—	—	—	<b>39</b>
Other adjustments .....	<b>777</b>	—	—	—	<b>777</b>
<b>December 31, 2017</b> .....	<u><b>1,079</b></u>	<u><b>6,726</b></u>	<u><b>885</b></u>	<u><b>(2,381)</b></u>	<u><b>6,309</b></u>

On December 22, 2017, a new income tax law in the U.S. was enacted which, among other changes, reduced the top U.S. federal corporate income tax rate from 35% to 21%. To reflect the lower tax rate, net deferred tax liabilities were reduced by SAR 1,307 with a corresponding benefit to tax expense.

On December 19, 2017, Korea enacted the 2018 tax reform bill which, among other changes, increased the top corporate tax rate from 24.2% to 27.5%. As such, net deferred tax liabilities were increased by SAR 303 to reflect the new income tax rate. This change also increased income tax expense by the same amount.

A deferred income tax liability has not been recognized with regard to the undistributed earnings of certain subsidiaries which are considered to be permanently reinvested in their respective businesses. Such earnings would be taxed only upon distribution. The cumulative amount of the undistributed earnings of such subsidiaries is SAR 50,652 and SAR 42,649 at December 31, 2017 and 2016, respectively, and the unrecognized deferred income tax liability is SAR 3,737 and SAR 3,619 at December 31, 2017 and 2016, respectively.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(e) Tax assessments**

The Company and its subsidiaries and affiliates are subject to tax review and audit in tax jurisdictions where they operate. In March 2017, the Company and its wholly owned domestic affiliates were notified that the Saudi Arabian income tax submissions for all years up to and including the year ended December 31, 2015 are accepted as filed. Saudi Aramco has submitted its 2016 income tax submission and expects its submission to be accepted as filed.

For the Company's other domestic affiliates and international subsidiaries and affiliates, examinations of tax returns for certain prior tax years had not been completed as of December 31, 2017, and the Company is not aware of any significant claims. Therefore, no provision for any additional income tax liability has been made in the consolidated financial statements.

**9. Other assets and receivables**

	<b>2017</b>	<b>2016</b>
<b>Non-current:</b>		
Home loans .....	<b>4,735</b>	4,425
Loans to joint venture and associate (Note 29(b)) .....	<b>4,652</b>	4,462
Home ownership construction .....	<b>2,886</b>	1,459
Finance lease receivable from associate (Note 29(b)) .....	<b>465</b>	476
Other .....	<b>1,381</b>	1,639
	<b>14,119</b>	12,461
<b>Current:</b>		
Employee and other receivables .....	<b>1,545</b>	814
Rig mobilization fees .....	<b>1,261</b>	1,553
Prepaid expenses .....	<b>1,015</b>	716
Home loans .....	<b>718</b>	821
Tax receivables .....	<b>358</b>	263
Interest receivable .....	<b>273</b>	221
Investment in securities (Note 10) .....	<b>270</b>	206
Assets held for sale .....	<b>235</b>	—
Receivables from joint venture and associate (Note 29(b)) .....	<b>33</b>	94
Other .....	<b>173</b>	191
	<b>5,881</b>	4,879

**(a) Home loans**

The home ownership programs provide subsidized non-interest bearing loans to Saudi Arabian employees. Loans are repayable through payroll deductions and are net of associated subsidies. Any balance remaining upon the death, permanent disability or termination of an employee under the Chronic Medical Condition Program is forgiven. An analysis of the home loans balance at December 31 is as follows:

	<b>2017</b>	<b>2016</b>
Gross amounts receivable .....	<b>7,907</b>	7,549
Less:		
Discount .....	<b>(1,494)</b>	(1,403)
Allowance for doubtful home loans .....	<b>(593)</b>	(484)
Subsidies .....	<b>(367)</b>	(416)
Net amounts receivable .....	<b>5,453</b>	5,246
<b>Current</b> .....	<b>(718)</b>	(821)
<b>Non-current</b> .....	<b>4,735</b>	4,425



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**10. Investment in securities**

	<u>2017</u>	<u>2016</u>
<b>January 1</b> .....	<b>17,670</b>	14,351
Net additions .....	<b>506</b>	1,039
Net unrealized fair value gain .....	<b>949</b>	2,344
Impairment .....	—	(60)
Net unrealized foreign currency gain (loss) .....	<b>17</b>	(4)
<b>December 31</b> .....	<b>19,142</b>	17,670
<b>Current (Note 9)</b> .....	<b>(270)</b>	(206)
<b>Non-current</b> .....	<b>18,872</b>	17,464

Net additions include unsettled transactions of SAR 30 at December 31, 2017 (2016: SAR 214). Investment in securities are carried at fair value.

The components of Investment in securities are as follows:

	<u>Percent ownership</u>		<u>Carrying amount as of December 31, 2017</u>	<u>Carrying amount as of December 31, 2016</u>
	<u>2017</u>	<u>2016</u>		
<b>Available-for-sale financial assets:</b>				
<b>Equity investments—listed securities:</b>				
Saudi Electricity Company (“SEC”) .....	<b>6.9%</b>	6.9%	<b>6,071</b>	6,514
Showa Shell Sekiyu K.K. (“Showa Shell”) .....	<b>14.9%</b>	14.9%	<b>2,869</b>	1,965
Mutual and hedge funds .....			<b>4,208</b>	3,353
<b>Equity investments—unlisted securities:</b>				
Arab Petroleum Pipeline Company (“Sumed”) ....	<b>15.0%</b>	15.0%	<b>907</b>	911
Industrialization & Energy Services Company (“TAQA”) .....	<b>4.6%</b>	4.6%	<b>247</b>	218
Daehan Oil Pipeline Corporation (“Daehan”) .....	<b>8.9%</b>	8.9%	<b>161</b>	139
<b>Investment in debt securities:</b>				
U.S. Dollar debt securities with fixed interest rates ranging from 0.6% to 9.8% (0.1% to 9.8% for prior year) and maturity dates between January 2018 and February 2048 (January 2017 and December 2049 for prior year) .....			<b>3,334</b>	3,502
U.S. Dollar debt securities with variable interest rates maturity dates range between March 2018 and October 2062 (January 2017 and October 2062 for prior year) .....			<b>497</b>	427
			<b>18,294</b>	17,029
<b>Financial assets at fair value through profit or loss—unlisted securities</b> .....			<b>848</b>	641
			<b>19,142</b>	17,670

The fair value of Sumed is based on expected cash flows discounted using a rate based on market interest rates and a risk premium specific to the unlisted security which was 9.8% and 10.2% for the years ended December 31, 2017 and 2016, respectively. The fair value of TAQA is based on an earnings growth factor for unlisted equity securities from market information for similar types of companies. The fair value of Daehan is determined using discounted cash flow analysis based on the risk adjusted yield.

The maximum exposure to credit risk at the reporting date of the investment in debt securities is the fair value. To limit credit risk, Saudi Aramco’s investment policy requires that these securities be diversified. Credit ratings for debt securities held as at December 31, 2017 range from AAA to BB (2016: AAA to BB) as set out by internationally recognized credit rating agencies.

During 2017, there is a net disposal of SAR 56 in debt securities (2016: net additions of SAR 453).

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**11. Inventories**

	<b>2017</b>	<b>2016</b>
Crude oil, refined products and chemicals .....	<b>28,130</b>	15,071
Materials and supplies—net .....	<b>5,735</b>	5,850
Natural gas liquids and other .....	<b>148</b>	135
	<b>34,013</b>	<b>21,056</b>

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

	<b>2017</b>	<b>2016</b>
<b>Balance, January 1</b> .....	<b>1,733</b>	1,590
Additions to the allowance .....	<b>178</b>	143
<b>Balance, December 31</b> .....	<b>1,911</b>	<b>1,733</b>

**12. Trade receivables**

Trade receivables from export and local sales are denominated primarily in USD and SAR, respectively.

The components of trade receivables as at December 31 are as follows:

	<b>2017</b>	<b>2016</b>
Arising from export and local sales at international prices .....	<b>78,129</b>	59,918
Arising from local sales at Kingdom regulated prices .....	<b>9,619</b>	6,158
	<b>87,748</b>	66,076
Less: Allowances arising from local sales at Kingdom regulated prices .....	<b>(856)</b>	(818)
	<b>86,892</b>	<b>65,258</b>

At December 31, 2017 and 2016, there were no trade receivables arising from export sales that were past due.

In addition, as described in Note 2(a)(v) effective January 1, 2017 the Government through the Ministry of Finance provided a guarantee to the Company in the event that certain Government and semi-Government agencies are unable to settle within the terms agreed with the Company. Prior to 2017, these amounts were not guaranteed and revenue was recognized when payment was received.

As described in Note 29(b), the movement of the allowance for trade receivables related to past due local sales that prior to 2016 were primarily made to Government and semi-Government agencies is as follows:

	<b>2017</b>	<b>2016</b>
<b>January 1</b> .....	<b>818</b>	35,505
Net allowance additions .....	<b>38</b>	17,705
Transfer of trade receivables due from Government and semi-Government agencies .....	—	(43,043)
Transfer of Government fees .....	—	(9,349)
<b>December 31</b> .....	<b>856</b>	<b>818</b>

**13. Due from the Government**

	<b>2017</b>	<b>2016</b>
Amounts due under supplemental income (Note 2(a)(iii)) .....	<b>38,717</b>	—
Amounts due under Government Guarantee (Note 2(a)(v)) .....	<b>274</b>	—
Note 29(b) .....	<b>38,991</b>	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**14. Short-term investments**

	<u>2017</u>	<u>2016</u>
South Korean Won time deposits .....	5,999	10,654
USD time deposits .....	105	1,136
SAR time deposits .....	80	592
SAR murabaha time deposits (Shari'a compliant) .....	—	154
	<u>6,184</u>	<u>12,536</u>

**15. Cash and cash equivalents**

	<u>2017</u>	<u>2016</u>
Cash at bank and in hand .....	21,058	11,242
USD time deposits .....	53,771	32,467
USD murabaha time deposits (Shari'a compliant) .....	3,677	788
South Korean Won time deposits .....	1,328	2,242
SAR time deposits .....	747	709
SAR repurchase agreements .....	661	623
Time deposits—other currencies .....	—	4
	<u>81,242</u>	<u>48,075</u>

**16. Other reserves**

	Currency translation adjustment	Fair value adjustments of available-for-sale financial assets	Post-employment benefit obligations	Cash flow hedges and other	Share of other comprehensive income (loss) of joint ventures and associates		Total
					Post-employment benefit obligations and other	Foreign currency translation (losses) gains	
<b>January 1, 2016</b> .....	(801)	659	—	(56)	(106)	263	(41)
Current period change .....	(775)	2,490	—	—	158	(286)	1,587
Remeasurement loss .....	—	—	(7,058)	—	(34)	—	(7,092)
Transfer to retained earnings ..	—	—	1,035	—	34	—	1,069
Tax effect .....	—	(1,725)	6,030	—	—	—	4,305
Less: amounts related to non-controlling interests .....	307	—	(7)	—	—	—	300
<b>December 31, 2016</b> .....	(1,269)	1,424	—	(56)	52	(23)	128
Current period change .....	3,333	924	—	(169)	(205)	661	4,544
Remeasurement gain .....	—	—	7,597	—	3	—	7,600
Transfer to retained Earnings .....	—	—	11,726	—	(3)	—	11,723
Tax effect .....	—	2,144	(19,311)	—	—	—	(17,167)
Less: amounts related to non-controlling interests .....	(1,266)	—	(12)	120	—	—	(1,158)
<b>December 31, 2017</b> .....	<u>798</u>	<u>4,492</u>	<u>—</u>	<u>(105)</u>	<u>(153)</u>	<u>638</u>	<u>5,670</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**17. Borrowings**

	<b>2017</b>	<b>2016</b>
<b>Non-current:</b>		
Borrowings .....	<b>26,664</b>	27,630
Debentures .....	<b>20,735</b>	7,276
Sukuk (Shari'a compliant) .....	<b>13,001</b>	1,918
Finance lease liabilities .....	<b>7,158</b>	6,653
Other <sup>(1)</sup> .....	<b>1,134</b>	—
	<b>68,692</b>	43,477
<b>Current:</b>		
Short-term bank financing .....	<b>4,857</b>	5,551
Borrowings .....	<b>3,354</b>	2,878
Sukuk (Shari'a compliant) .....	<b>157</b>	134
Finance lease liabilities .....	<b>538</b>	419
	<b>8,906</b>	8,982
<b>Finance costs:</b>		
Conventional borrowing .....	<b>965</b>	565
Finance lease liabilities .....	<b>500</b>	529
Shari'a compliant financial instruments .....	<b>625</b>	260
	<b>2,090</b>	1,354

(1) Other borrowings are comprised of loans from non-financial institutions under commercial terms.

**Borrowing facilities:**

Saudi Aramco has entered into long-term financing arrangements with various lenders. These financing arrangements limit the creation of additional liens and/or financing obligations and certain of these arrangements are secured over certain property, plant and equipment with a carrying value of SAR 39,427 (2016: SAR 34,079) of Saudi Aramco. Additionally, certain financing arrangements require compliance by Saudi Aramco with covenants to maintain certain financial and other conditions. Saudi Aramco has complied with these covenants throughout the reporting period.

Details of financing facilities as at December 31 are as follows:

		Total facility		Total undrawn	
		2017	2016	2017	2016
Revolving credit facilities .....	a	<b>48,825</b>	38,891	<b>48,825</b>	38,891
Sukuk (Shari'a compliant) .....	b	<b>39,844</b>	2,344	<b>26,250</b>	—
Commercial and other .....	c	<b>30,559</b>	28,658	<b>4,605</b>	3,173
Short-term borrowings .....	d	<b>24,578</b>	20,794	<b>19,721</b>	15,244
Export credit agencies .....	e	<b>13,854</b>	6,353	<b>7,500</b>	—
Public Investment Fund .....	f	<b>4,594</b>	4,594	—	—
Saudi Industrial Development Fund .....	g	<b>1,249</b>	1,249	—	—
Wakala (Shari'a compliant) .....	h	<b>821</b>	821	—	—
		<b>164,324</b>	103,704	<b>106,901</b>	57,308

**(a) Revolving credit facilities**

As at December 31, 2017, the Company held facilities that total SAR 48,825 consisting of:

- (i) USD denominated conventional five-year \$6,000 million and a \$1,000 million 364-day facility along with a SAR denominated Islamic murabaha five-year facility in the amount of SAR 7,500

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

and a SAR 3,750 364-day facility. Both of the five-year facilities were established in March 2015 and are fully available through the end of the fifth year and each can be extended twice for an additional one year period for a maximum of seven years if the extension options are exercised. The credit facility documentation provides for certain limits on the creation of liens on or other security interests in the assets of the Company, and on the sale, lease or transfer, of its assets to third parties.

- (ii) Saudi Aramco subsidiaries maintain facilities of SAR 11,325 (2016: SAR 1,391), of which two one-year facilities were acquired with Motiva (Note 30(a)(i)), a letter of credit facility of \$1,000 million and a revolving credit facility of \$1,500 million for working capital requirements and to support trading activities. Both are expected to be renewed in 2018. The remaining revolving credit facilities are executed with a group of foreign and domestic banks for general corporate purposes and working capital requirements.

**(b) Sukuk (Shari'a compliant)**

A sukuk is a financial instrument similar to a bond that complies with Islamic financing principles.

- (i) On April 10, 2017, Saudi Aramco issued a sukuk for SAR 11,250 at par value as part of a SAR 37,500 program. The sukuk issuance provides a return based on Saudi Arabian Interbank Offered Rate (SAIBOR) plus a pre-determined margin payable semi-annually on April 10 and October 10. The sukuk matures on April 10, 2024. In accordance with the terms of the sukuk, 51% of the proceeds from issuance are invested in mudaraba assets and the remaining 49% are used in a murabaha arrangement.
- (ii) On October 9, 2011, Saudi Aramco issued a sukuk for SAR 2,344 (par value) with semi-annual payments from December 20, 2014 to December 20, 2025 that provides a rate of return above SAIBOR. The sukuk was structured as Istisnah for pre-construction and Ijara for post-construction of the project.

**(c) Commercial and other**

Saudi Aramco has commercial and other facility agreements with a number of banks. The facilities are primarily repayable in twelve to twenty-three installments on a semi-annual basis from June 15, 2014 to December 20, 2025. Commission is payable on amounts drawn and are mainly calculated at a market rate plus a margin.

**(d) Short-term borrowings**

Saudi Aramco has facilities with a number of banks for short-term borrowing with each borrowing less than one year and drawing interest at market rates plus a margin.

**(e) Export credit agencies**

**(i) UK Export Finance facility**

On October 11, 2017, Saudi Aramco entered into a USD denominated facility in the amount of \$2,000 million with five commercial banks which is guaranteed by UK Export Finance. The facility expires during 2019 with repayments on borrowings for five years with a margin based on LIBOR. No drawdowns have been made as of December 31, 2017.

**(ii) Other Export Credit Agencies**

Saudi Aramco has facility agreements with six export credit agencies. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(f) Public Investment Fund**

Saudi Aramco has facility agreements with the Saudi Public Investment Fund. The facilities are repayable in fourteen to twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

**(g) Saudi Industrial Development Fund**

Saudi Aramco has facility agreements with the Saudi Industrial Development Fund (“SIDF”). The facilities bear no periodic financial charges and borrowings are repayable in fourteen unequal instalments on a semi-annual basis according to the Hijri calendar commencing from 15 Sha’aban 1437 H (May 22, 2016) to 15 Safar 1444 H (September 11, 2022).

**(h) Wakala (Shari’a compliant)**

Saudi Aramco has Shari’a compliant Islamic Facility Agreements (“IFAs”) with two lenders. The IFAs utilize a wakala financing structure which is an agency arrangement. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

At the date of the Consolidated Balance Sheet, the carrying values of Saudi Aramco’s non-current borrowings approximate their fair values.

The carrying amounts of non-current borrowings at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Commercial and other .....	<b>20,966</b>	20,554
Sukuk .....	<b>13,166</b>	2,051
Export credit agencies .....	<b>4,683</b>	5,107
Public Investment Fund .....	<b>3,765</b>	4,140
SIDF .....	<b>960</b>	1,125
Other .....	<b>1,134</b>	—
	<b>44,674</b>	32,977
Less: unamortized transaction costs .....	<b>(364)</b>	(417)
	<b>44,310</b>	32,560
Debentures denominated in USD .....	<b>11,333</b>	—
Debentures denominated in Korean Won .....	<b>9,402</b>	7,276
	<b>65,045</b>	39,836
Less: current portion .....	<b>(3,511)</b>	(3,012)
Non-current portion .....	<b>61,534</b>	36,824

Debentures denominated in USD are issued in public capital markets that have maturities that range between 2027 to 2040 with variable interest rates. Two private placement debentures of \$1,000 million each mature in 2020 and 2040 with an interest rate of 5.75% and 6.85%, respectively.

Debentures denominated in Korean Won are issued in public capital markets. Interest rates range from 1.6% to 3.5% with maturities beginning in 2019 through 2027.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

Movements in unamortized transactions costs are as follows:

	<u>2017</u>	<u>2016</u>
<b>January 1</b> .....	<b>417</b>	375
Additional transaction costs incurred .....	—	87
Less: amortization .....	<b>(53)</b>	(45)
<b>December 31</b> .....	<b>364</b>	417

Maturities at carrying value of long-term borrowings are as follows:

	<u>2017</u>	<u>2016</u>
No later than one year .....	<b>3,511</b>	3,012
Later than one year and no later than five years .....	<b>28,521</b>	19,969
Later than five years .....	<b>33,377</b>	17,272
	<b>65,409</b>	40,253

Maturities at contractual value of long-term borrowings are as follows:

	<u>2017</u>	<u>2016</u>
No later than one year .....	<b>3,735</b>	3,172
Later than one year and no later than five years .....	<b>29,186</b>	20,764
Later than five years .....	<b>33,638</b>	21,375
	<b>66,559</b>	45,311

**Finance lease liabilities**

Covenants of certain long-term financing facilities require Saudi Aramco to maintain defined financial and other conditions. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The lessor has ownership of the assets during the term of the contract and is responsible for the operation, insurance and maintenance of the assets until termination of the underlying agreements. For certain leases, the lessor shall transfer its rights, title and interest in the assets to the lessee on last day of the agreements, for others, there are no further obligations on completion of agreements. Performance guarantees are provided by lessor under the terms of the agreements.

The gross finance lease obligation (minimum lease payments) and related future finance charges of finance lease liabilities at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
No later than one year .....	<b>1,052</b>	941
Later than one year and no later than five years .....	<b>4,410</b>	4,001
Later than five years .....	<b>5,865</b>	6,086
	<b>11,327</b>	11,028
Future finance charges on finance leases .....	<b>(3,631)</b>	(3,956)
	<b>7,696</b>	7,072

The present value of finance lease liabilities at December 31 is as follows:

	<u>2017</u>	<u>2016</u>
No later than one year .....	<b>538</b>	419
Later than one year and no later than five years .....	<b>2,713</b>	2,235
Later than five years .....	<b>4,445</b>	4,418
	<b>7,696</b>	7,072

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The movement of borrowings was as follows:

	<u>Long-term borrowings</u>	<u>Short-term borrowings</u>	<u>Finance lease liabilities</u>	<u>Total liabilities from financing activities</u>
<b>January 1, 2016</b> .....	25,687	5,063	6,615	37,365
Cash flows .....	14,500	659	(396)	14,763
Non-cash changes:				
Foreign exchange adjustment .....	(313)	(176)	—	(489)
Others .....	<u>(38)</u>	<u>5</u>	<u>853</u>	<u>820</u>
<b>December 31, 2016</b> .....	39,836	5,551	7,072	52,459
Cash flows .....	<b>11,540</b>	<b>(2,170)</b>	<b>(446)</b>	<b>8,924</b>
Non-cash changes:				
Acquisitions (Note 30) .....	<b>11,366</b>	<b>856</b>	<b>251</b>	<b>12,473</b>
Foreign exchange adjustment .....	<b>1,271</b>	<b>631</b>	<b>—</b>	<b>1,902</b>
Others .....	<u><b>1,032</b></u>	<u><b>(11)</b></u>	<u><b>819</b></u>	<u><b>1,840</b></u>
<b>December 31, 2017</b> .....	<u><b>65,045</b></u>	<u><b>4,857</b></u>	<u><b>7,696</b></u>	<u><b>77,598</b></u>

**18. Post-employment benefit obligations**

Saudi Aramco sponsors several funded and unfunded defined benefit pension plans and other post-employment benefit plans that provide pension, severance, death, medical and/or other benefits to substantially all of its employees primarily in Saudi Arabia ('Saudi plans') and the U.S. ('U.S. plans'). Retirement benefits for defined benefit pension plans, are paid, primarily, in the form of lump sum payments upon retirement based on final salary and length of service. Other post-employment benefits such as medical are used to cover retired employees and eligible dependents of retirees for medical services in line with the plan policy documents.

At December 31, the net liability recognized for employee defined benefit plans in the Consolidated Balance Sheet is as follows:

	<u>2017</u>	<u>2016</u>
Pension plans .....	<b>1,111</b>	4,849
Medical and other post-employment benefit plans .....	<b>34,650</b>	39,431
Permanent and Total Disability ("PTD") and Chronic Medical Condition ("CMC") .....	<u><b>2,430</b></u>	<u>2,505</u>
<b>Net benefit liability</b> .....	<u><b>38,191</b></u>	<u>46,785</u>



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

	Pension benefits		Other benefits	
	2017	2016	2017	2016
<b>Net benefit obligation by funding:</b>				
Present value of funded obligations .....	50,454	45,585	92,175	87,893
Fair value of plan assets .....	(53,726)	(44,989)	(61,661)	(51,867)
<b>Benefit (surplus)/deficit .....</b>	<b>(3,272)</b>	596	<b>30,514</b>	36,026
Present value of unfunded obligations .....	4,383	4,253	6,566	5,910
<b>Net benefit liability .....</b>	<b>1,111</b>	4,849	<b>37,080</b>	41,936
<b>Change in benefit obligations:</b>				
Benefit obligations, January 1 .....	49,838	50,561	93,803	80,618
Current service cost .....	2,865	2,895	2,123	1,755
Interest cost .....	2,039	2,107	4,005	3,743
Past service cost .....	176	476	187	431
Remeasurement .....	2,664	1,099	(158)	8,865
Plan participants' contribution .....	116	120	—	—
Benefits paid .....	(3,450)	(6,765)	(1,639)	(1,609)
Settlements .....	(848)	(634)	—	—
Motiva acquisition .....	1,395	—	278	—
Foreign currency translation and other .....	42	(21)	142	—
<b>Benefit obligations, December 31 .....</b>	<b>54,837</b>	49,838	<b>98,741</b>	93,803
<b>Change in plan assets:</b>				
Fair value of plan assets January 1 .....	(44,989)	(43,628)	(51,867)	(46,624)
Interest income .....	(1,781)	(1,796)	(2,201)	(2,138)
Remeasurement .....	(6,173)	300	(3,930)	(3,206)
Employer contributions .....	(4,247)	(7,305)	(5,302)	(1,508)
Benefits paid .....	3,450	6,765	1,639	1,609
Settlements .....	848	634	—	—
Motiva acquisition .....	(690)	—	—	—
Foreign currency translation and other .....	(144)	41	—	—
<b>Fair value of plan assets December 31 .....</b>	<b>(53,726)</b>	(44,989)	<b>(61,661)</b>	(51,867)
<b>Net benefit liability as at December 31 .....</b>	<b>1,111</b>	4,849	<b>37,080</b>	41,936

The weighted average duration of the pension benefit obligations is 12 years at December 31, 2017 and at December 31, 2016. The weighted average duration of the other benefit obligations is 21 years at December 31, 2017 and at December 31, 2016.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The components of net defined benefit cost, before tax, recognized in the Consolidated Statement of Income and in the Consolidated Statement of Comprehensive Income for the years ended December 31 are as follows:

	<u>Pension benefits</u>		<u>Other benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Amounts recognized in selling, administration and general expenses:</b>				
Current service cost . . . . .	<b>2,865</b>	2,895	<b>2,123</b>	1,755
Past service cost . . . . .	<b>176</b>	476	<b>187</b>	431
Net interest cost . . . . .	<b>258</b>	311	<b>1,804</b>	1,605
	<b><u>3,299</u></b>	<b><u>3,682</u></b>	<b><u>4,114</u></b>	<b><u>3,791</u></b>
<b>Amounts recognized in other comprehensive income:</b>				
Losses (gains) from changes in demographic assumptions . . . . .	<b>439</b>	—	<b>(2,194)</b>	90
Losses from changes in financial assumptions . . . . .	<b>2,246</b>	1,343	<b>8,936</b>	6,397
(Gains) losses from changes in experience adjustments . . . . .	<b>(21)</b>	(244)	<b>(6,900)</b>	2,378
(Returns) losses on plan assets (excluding interest income) . . . . .	<b>(6,173)</b>	300	<b>(3,930)</b>	(3,206)
	<b><u>(3,509)</u></b>	<u>1,399</u>	<b><u>(4,088)</u></b>	<u>5,659</u>
Net defined benefit cost before income taxes . . . . .	<b><u>(210)</u></b>	<u>5,081</u>	<b><u>26</u></b>	<u>9,450</u>

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, based in part on market conditions. Any changes in these assumptions will impact the carrying amount of the defined benefit obligations.

The significant assumptions used to determine the present value of the defined benefit obligations for the years ended December 31 are as follows:

	<u>Pension benefits</u>		<u>Other benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate . . . . .	<b>3.5%</b>	3.8%	<b>3.7%</b>	4.2%
Salary growth rate . . . . .	<b>5.4%</b>	5.4%	—	—
SAR annual average medical claim cost . . . . .			<b>20,936</b>	20,790
Health care participation rate . . . . .			<b>90%</b>	90%
Assumed health care trend rates:				
Cost-trend rate . . . . .			<b>8.0%</b>	9.0%
Rate to which cost-trend is to decline . . . . .			<b>5.0%</b>	5.0%
Year that the rate reaches the ultimate rate . . . . .			<b>2021</b>	2021

All of the above assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the defined benefit obligations.

Saudi Aramco determines the discount rate used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit plan obligations. In determining the appropriate discount rate, Saudi Aramco considers the interest rates of high-quality corporate bonds in the United States that have terms to maturity approximating the terms of the related defined benefit obligation.

Mortality assumptions are reviewed regularly and set based on actuarial advice in accordance with best practice and statistics, adjusted to reflect the experience and improvements to longevity. Relevant life expectancies are as follows:

<u>Life expectancy at age:</u>	<u>Saudi Plans</u>		<u>US Plans</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
50 . . . . .	32.3	34.7	34.3	36.9
60 . . . . .	23.7	25.7	25.0	27.2
60 (currently aged 40) . . . . .	23.7	25.7	26.8	29.0

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The salary growth rate assumption is based on a study of recent years' salary experience and reflects management's outlook for future increases. The annual average medical claim cost assumption is based on the current year's actual average medical claim cost per participant. The health care participation rate considers the historical participation rate, amongst others, derived from the best available historical data. The assumed health care cost-trend rates reflect Saudi Aramco's historical experience and management's expectations regarding future trends.

The sensitivity of the overall defined benefit obligations to changes in the principal assumptions, keeping all other assumptions constant is presented below. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

	<u>Change in Assumption</u>	<u>Impact on obligation</u>	<u>2017</u>	<u>2016</u>
Ultimate health care cost-trend rates . . . . .	Increase by 0.5%	Increase by	<b>10,129</b>	9,840
	Decrease by 0.5%	Decrease by	<b>(8,801)</b>	(8,658)
Discount rate other benefits . . . . .	Increase by 0.5%	Decrease by	<b>(9,368)</b>	(9,094)
	Decrease by 0.5%	Increase by	<b>10,785</b>	10,298
Discount rate pension benefits . . . . .	Increase by 0.5%	Decrease by	<b>(2,914)</b>	(2,648)
	Decrease by 0.5%	Increase by	<b>3,233</b>	2,876
Salary growth rate . . . . .	Increase by 0.5%	Increase by	<b>1,421</b>	1,362
	Decrease by 0.5%	Decrease by	<b>(1,691)</b>	(1,609)
Annual average medical claim cost . . . . .	Increase by 5%	Increase by	<b>4,688</b>	4,322
	Decrease by 5%	Decrease by	<b>(4,680)</b>	(4,322)
Life expectancy . . . . .	Increase by 1 year	Increase by	<b>5,280</b>	3,993
	Decrease by 1 year	Decrease by	<b>(5,340)</b>	(3,934)
Health care participation rate . . . . .	Increase by 5%	Increase by	<b>1,571</b>	1,680
	Decrease by 5%	Decrease by	<b>(1,676)</b>	(1,680)

**Plan assets at December 31 consisted of the following:**

	<u>2017</u>	<u>2016</u>
Cash . . . . .	<b>2,610</b>	2,083
Time deposits . . . . .	<b>2,107</b>	2,187
Equity instruments . . . . .	<b>42,608</b>	38,054
Investment funds . . . . .	<b>34,097</b>	25,302
Bonds . . . . .	<b>33,178</b>	28,283
Sukuk (Shari'a compliant) . . . . .	<b>787</b>	947
	<b>115,387</b>	96,856

Plan assets are administered under the oversight of the Company and are held and managed by independent trustees or separate entities, in a manner consistent with fiduciary obligations and principles, acting in the best interest of plan participants. The Company is responsible for the implementation of Board approved investment policy and making investment recommendations to the legal entities holding the plan assets. The investment objective is to maximize investment returns consistent with prudent risk over a long-term investment horizon in order to secure retiree benefits and minimize corporate funding. Plan assets are held separately, solely to pay retiree benefits, with no recourse to Saudi Aramco. The Saudi Plans have the right to transfer assets held in excess of the Plan's defined benefit obligation to other Saudi Plans. The right to transfer such assets is solely in respect of amounts held in excess of the Plan's defined benefit obligations and solely to Plan's with defined benefit obligations exceeding the value of assets held.

Through its post-employment benefit plans, Saudi Aramco is exposed to a number of risks including asset volatility, changes in bond yields, inflation and life expectancy. Investment risk is minimized through

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

diversification of investments among fixed income, equity, and alternative asset classes. Asset allocation is determined by an asset liability modeling study. The target asset allocation is, approximately, 41% (2016: 41%) equity instruments, 33% (2016: 33%) debt instruments, and 26% (2016: 26%) alternative assets. Inflation risk is partially offset by equities inflation and life expectancy risk is borne by Saudi Aramco.

While the Saudi plans are generally not governed by regulatory minimum funding requirements, the funding objective is to reach full funding of the larger plans only. Saudi Aramco meets the obligation of the unfunded plans as they fall due. Funding for the U.S. plans is recommended by the actuary in order to meet Saudi Aramco's funding strategy to maintain a fully funded status using Pension Protection Act (PPA) rules. Saudi Aramco expects to contribute SAR 3,750 and SAR 488 to its Saudi and U.S. plans, respectively, in 2018.

In addition to the above plans, Saudi Aramco maintains defined contribution plans for which Saudi Aramco's legal or constructive obligation for these plans is limited to the contributions. The costs of the defined contribution plans, which are included as operating and general expenses in the Consolidated Statement of Income, are SAR 861 and SAR 852 for the years ended December 31, 2017 and 2016, respectively.

**19. Provisions**

	<u>Asset retirement</u>	<u>Environmental</u>	<u>Other</u>	<u>Total</u>
<b>January 1, 2017</b> .....	<b>8,032</b>	<b>1,088</b>	<b>278</b>	<b>9,398</b>
Revision to estimate .....	<b>3,129</b>	<b>(303)</b>	<b>—</b>	<b>2,826</b>
Additional provisions .....	<b>739</b>	<b>270</b>	<b>883</b>	<b>1,892</b>
Unwinding of discount .....	<b>282</b>	<b>26</b>	<b>—</b>	<b>308</b>
Amounts charged against provisions .....	<b>(48)</b>	<b>(285)</b>	<b>(94)</b>	<b>(427)</b>
<b>December 31, 2017</b> .....	<b><u>12,134</u></b>	<b><u>796</u></b>	<b><u>1,067</u></b>	<b><u>13,997</u></b>

These provisions consist primarily of asset retirement provisions for the future plugging and abandonment of oil and natural gas wells and the decommissioning of certain Downstream assets. The environmental provision is for the remediation of ground water and soil contamination. Payments to settle these provisions will occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 50 years for the time when it is necessary to abandon oil and natural gas wells. The amount and timing of settlement in respect of these provisions are uncertain and dependent on various factors that are not always within management's control.

**20. Trade and other payables**

	<u>2017</u>	<u>2016</u>
Trade payables .....	<b>28,834</b>	21,900
Accrued materials and services .....	<b>22,560</b>	20,164
Amounts due to related parties (Note 29 (b)) .....	<b>6,795</b>	5,542
Other accruals .....	<b>3,866</b>	4,533
	<b><u>62,055</u></b>	<b><u>52,139</u></b>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**21. Revenue**

	2017	2016
Revenue:		
Export and local sales at international prices .....	782,231	567,889
Local sales at prices established by the Government .....	50,149	35,524
Other revenue .....	3,603	2,460
	<b>835,983</b>	<b>605,873</b>
Royalties (Note 2(a)(iv)) .....	—	(101,277)
	<b>835,983</b>	<b>504,596</b>
Other revenue:		
Services provided to:		
Government agencies (Note 29(a)) .....	1,076	218
Third parties .....	1,065	940
Joint ventures and associates (Note 29(a)) .....	435	645
Freight .....	64	98
Other .....	963	559
	<b>3,603</b>	<b>2,460</b>

**22. Finance and other income**

	2017	2016
Interest income on time deposits and loans receivable .....	1,106	750
Gain on derivative transactions .....	202	319
Dividend income .....	138	154
Investment income .....	73	83
Other .....	50	303
	<b>1,569</b>	<b>1,609</b>

**23. Non-cash and settlement transactions in the Consolidated Statement of Cash Flows**

**(a) Settlement transactions**

As described in Notes 2(a)(iii) and (v), the Government and the Company established settlement arrangements for supplemental income and receivables from specified Government and semi-Government customers. As a result of these arrangements, net cash provided by operating activities for the year ended December 31, 2017 includes settlement of an amount due from the Government of SAR 64,410 by offset against income tax obligations of SAR 56,197 (Note 8(c)) and royalty obligations of SAR 8,213 to the Government. In addition, cash used in financing activities for the year ended December 31, 2017 includes settlement of an amount due from the Government of SAR 56,558 through an additional distribution to the Government in 2017.

**(b) Other transactions**

Other investing activities includes SAR 1,796 of subordinated shareholder loans with a joint venture that were converted to equity during 2017 (2016: SAR 3,293), SAR 3,901 of finance leases entered into in 2017 (2016: SAR 851), asset retirement provisions of SAR 3,591 (2016: SAR 8,032) and other investments of nil (2016: SAR 300).

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**24. Commitments**

**(a) Capital commitments**

Capital expenditures contracted for but not yet incurred are SAR 101,813 and SAR 118,427 at December 31, 2017 and 2016, respectively.

**(b) Operating leases**

Saudi Aramco leases drilling rigs, tankers, real estate, transportation equipment, light industrial equipment and office equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. Terms of the agreements vary but typically include provisions allowing cancellation, after notice, within six months. Rates are generally fixed at the contract date. The approximate minimum payments for non-cancellable operating leases at December 31 are:

	<b>2017</b>	<b>2016</b>
No later than one year . . . . .	<b>7,160</b>	6,146
Later than one year and no later than five years . . . . .	<b>10,347</b>	8,394
Later than five years . . . . .	<b>4,079</b>	2,062
	<b>21,586</b>	16,602

**(c) Saudi Aramco Nabors Drilling Company (“SANAD”)**

On May 11, 2017, Saudi Aramco Development Company, a wholly-owned subsidiary of the Company, and Nabors International Netherlands BV formed a 50/50 joint venture company (Note 33), SANAD, to provide onshore drilling services to the Company. Saudi Aramco has committed to invest SAR 1,463 as at December 31, 2017 through equity and shareholder loans, of which, SAR 840 has been drawn down. In addition, Saudi Aramco has committed to lease 50 onshore rigs over a ten-year period beginning in 2019 for an estimated value of SAR 24,263.

**(d) Saudi Aramco Rowan Offshore Drilling Company (“ARO Drilling”)**

On May 16, 2017, Saudi Aramco Development Company, a wholly-owned subsidiary of the Company, and Rowan Rex Limited formed a 50/50 joint venture company (Note 32.B.), ARO Drilling, to provide offshore drilling services to the Company. Saudi Aramco has committed to invest SAR 2,453 as at December 31, 2017 through equity and shareholder loans, of which, SAR 1,436 has been drawn down. In addition, Saudi Aramco has committed to lease 20 offshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 52,489.

**(e) International Maritime Industries (“IMI”)**

In November 2017, Saudi Aramco Development Company (“SADCO”), a wholly-owned subsidiary of the Company, and Lamprell plc (“Lamprell”), Bahri and Hyundai Heavy Industries (“HHI”) formed a joint venture, IMI, in which SADCO owns 50.1%, Lamprell owns 20%, Bahri owns 19.9% and HHI owns 10%. The principle activities of IMI are the development, operation, and maintenance of a maritime yard under construction by the Government, as well as, the design, manufacture, maintenance and repair of ships and rigs. The maritime yard will be divided into four main zones and completion of the construction of the individual zones will vary but is expected to be fully completed and operational by 2021. SADCO has committed to fund IMI up to SAR 1,313 through equity contributions. As at December 31, 2017, SAR 188 has been drawn down by IMI.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(f) Malaysian Joint Ventures**

In September 2017, Aramco Overseas Holding Cooperatief U.A. (“AOHC”), a wholly-owned subsidiary of Saudi Aramco, and Petronas Refinery and Petrochemical Corporation Sdn. Bhd. (“PETRONAS”), signed a share purchase agreement to form a joint venture company, PRPC Refinery and Cracker Sdn. Bhd., with equal ownership of 50% to construct, own and operate a refinery and steam cracker facility in South Johor, Malaysia. In addition, Saudi Aramco and Petronas Chemicals Group Berhad, a PETRONAS publicly traded affiliate, will construct, own and operate a chemical facility, PRPC Polymers Sdn. Bhd. to be integrated with the refinery and steam cracker. The estimated total project cost is SAR 52,500 of which Saudi Aramco has committed to invest approximately SAR 26,250 through equity contributions, or subordinated shareholder loans, or corporate debt guarantees, or a combination of these, through the project completion. The expected closing date of the transaction is March 2018 with a cash contribution by Saudi Aramco of SAR 4,324.

**(g) Other**

- (i) In order to comply with a Government directive, Saudi Aramco expects to at a future date sell portions of its equity in Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. (Note 33) through a public offering of shares in Saudi Arabia. Also, in order to comply with a Government directive, Excellent Performance Chemical Company (“EPCC”), a wholly-owned subsidiary of Saudi Aramco, expects to at a future date sell portions of its equity in Sadara (Note 25(a)) through a public offering of shares in Saudi Arabia.
- (ii) Saudi Aramco is committed to comply with the Government directive to guarantee that Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. shall spend a total of SAR 469 over ten years on social responsibility programs. As at December 31, 2017, SAR 420 is remaining through 2025.
- (iii) Saudi Aramco also has commitments of SAR 395 (2016: SAR 401) to continue investing in private equity investments both inside and outside the Kingdom. Such commitments can be called on demand.
- (iv) Saudi Aramco has commitments of SAR 81 (2016: SAR 409) to fund additional loans and acquire additional unlisted equity investments of certain small to mid-sized enterprises in the Kingdom. The commitments can be called by the enterprises upon meeting certain conditions.

**25. Contingencies**

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

Saudi Aramco also has contingent liabilities with respect to certain joint arrangements, as follows:

**(a) Sadara**

In 2011, EPCC and Dow Saudi Arabia Holding B.V. (together to be referred to as the “Founding Shareholders”) signed a shareholder agreement with a term of 99 years to construct and operate a fully-integrated chemicals complex at Jubail II Industrial City in Saudi Arabia (“the Project”). Shortly thereafter, the Founding Shareholders formed Sadara to execute the Project. As of December 31, 2017, Saudi Aramco has committed to provide a total financing facility of SAR 25,125 (2016: SAR 25,125) comprised of a shareholder loan and share capital commitment of which SAR 25,125 (2016: SAR 20,010) has been drawn down.

In 2013, Sadara entered into definitive agreements with certain export credit agencies and commercial banks for approximately SAR 39,505 (2016: SAR 39,505) of project financing. Saudi Aramco provided

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

guarantees for 65% of such facilities, which will be released upon successful completion of the creditor's reliability test on or before December 31, 2020. Prior to that time, should specific elements of the project fail to reach acceptable levels of performance, Sadara (or the shareholders acting through Sadara) may, subject to the satisfaction of certain conditions, elect to prepay or "buy-down" a proportion of outstanding senior loans by up to SAR 4,875, in lieu of satisfaction of certain elements of the completion, operation and reliability tests that comprise the creditor's reliability test. As at December 31, 2017, approximately SAR 37,875 (2016: SAR 37,875) has been drawn down from these facilities.

In 2013, Sadara conducted a project sukuk issuance in Saudi Arabia for approximately SAR 7,500 with a final maturity in December 2028. Saudi Aramco provided a guarantee for 65% of the sukuk on a limited recourse basis, which may be called at any time, upon the occurrence of certain trigger events prior to the project completion date. The sukuk proceeds were utilized for funding the Project.

The Company has provided a stand-by letter of credit for SAR 169 (2016: SAR 169) on behalf of Sadara to the Ministry of Energy, Industry and Mineral Resources ("MEIM") with respect to Sadara's fuel and feed-stock allocation. Furthermore, Saudi Aramco has committed to provide up to SAR 225 (2016: SAR 225) to MEIM for the establishment and operation of training and industrial development facilities to support conversion industries within the Kingdom.

**(b) Petro Rabigh**

In March 2015, the two founding shareholders, the Company and Sumitomo Chemical Co. Ltd., concluded external long-term debt financing arrangements with lenders on behalf of Petro Rabigh for the Rabigh II Project ("the Project") in the amount of SAR 19,380 (2016: SAR 19,380) for which the two shareholders provided guarantees for their equal share of the debt financing until project completion expected in 2018. As of December 31, 2017, SAR 19,174 (2016: SAR 18,368) has been drawn down from these facilities. The external debt financing is expected to provide approximately 57% of total capital requirements of SAR 33,743 (2016: SAR 33,743) for the Project with the remaining financing to be provided by a rights offering of additional shares by Petro Rabigh and other sources.

The founding shareholders also arranged an equity bridge loan of SAR 11,250 (2016: SAR 7,500), with equal share guarantees provided, to meet the equity financing requirements until the equity rights offering. The guarantees will continue until 2019. Petro Rabigh has drawn down SAR 6,555 (2016: SAR 4,680) of this loan as of December 31, 2017.

The Company has provided a standby letter of credit on behalf of Petro Rabigh for SAR 94 (2016: SAR 799) to MEIM as security for construction of certain chemical facilities related to Petro Rabigh.

**26. Derivative instruments and hedging activities**

Saudi Aramco uses interest rate swap contracts to manage exposure to interest rate risk resulting from borrowings. These hedges are designated as cash flow hedges. Saudi Aramco also uses short-term commodity swap contracts to manage exposure to price fluctuations and engages in hedging activities through the use of currency forward contracts and designated time deposits, principally, in relation to firm commitments under procurement contracts and transactions for foreign currency payrolls. These hedges are designated as fair value hedges.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The notional amounts of currency forward contracts, outstanding commodity swap contracts and interest rate swap contracts designated as hedging instruments at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Interest rate swaps .....	10,575	675
Commodity swap contracts .....	4,541	5,670
Currency forward contracts .....	4,148	1,755
	<u>19,264</u>	<u>8,100</u>

**27. Purchases**

	<u>2017</u>	<u>2016</u>
Refined products and chemicals .....	95,575	50,100
Crude oil .....	24,823	3,131
	<u>120,398</u>	<u>53,231</u>

Purchases primarily consist of refined products, chemicals and crude oil purchased from third parties for use in downstream operations and to meet demand for products in the Kingdom when it exceeds Saudi Aramco's production of the relevant product. Saudi Aramco also purchases products from third parties in certain markets where it is more cost effective compared to procuring them from other business units.

**28. Employee benefit expense**

	<u>2017</u>	<u>2016</u>
Salaries and wages .....	27,681	27,822
Social security costs .....	1,713	1,710
Post-retirement benefits (Note 18):		
Defined benefit plans .....	7,413	7,473
Defined contribution plans .....	861	852
	<u>37,668</u>	<u>37,857</u>

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**29. Related party transactions**

**(a) Transactions**

	<u>2017</u>	<u>2016</u>
<b>Joint ventures:</b>		
Revenue from sales . . . . .	<b>8,006</b>	13,001
Other revenue (Note 21) . . . . .	<b>79</b>	191
Interest income . . . . .	<b>90</b>	68
Service expenses . . . . .	<b>79</b>	184
<b>Associates:</b>		
Revenue from sales . . . . .	<b>28,789</b>	20,730
Other revenue (Note 21) . . . . .	<b>356</b>	454
Interest income . . . . .	<b>98</b>	124
Purchases . . . . .	<b>27,844</b>	22,286
Service expenses . . . . .	<b>244</b>	191
<b>Government and semi-Government agencies:</b>		
Sales . . . . .	<b>45,266</b>	19,966
Supplemental income . . . . .	<b>150,176</b>	—
Other revenue (Note 21) . . . . .	<b>1,076</b>	218
Purchases . . . . .	<b>3,266</b>	3,458
Service expenses . . . . .	<b>611</b>	851

Goods are purchased and sold according to supply agreements in force. Note 25 includes additional information on loans to a joint venture and an associate.

**(b) Balances**

	<u>2017</u>	<u>2016</u>
<b>Joint ventures:</b>		
Other assets and receivables (Note 9) . . . . .	<b>1,930</b>	1,804
Trade receivables . . . . .	<b>—</b>	566
Interest receivable . . . . .	<b>203</b>	116
<b>Associates:</b>		
Other assets and receivables (Note 9) . . . . .	<b>3,220</b>	3,228
Trade receivables . . . . .	<b>9,295</b>	6,728
Trade and other payables (Note 20) . . . . .	<b>4,166</b>	3,296
<b>Government and semi-Government agencies:</b>		
Trade receivables . . . . .	<b>6,034</b>	3,608
Due from the Government (Note 13) . . . . .	<b>38,991</b>	—
Trade and other payables (Note 20) . . . . .	<b>2,629</b>	2,246

Sales to and receivables from Government and semi-Government agencies are made on specific terms within the relevant regulatory framework in the Kingdom.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(c) Compensation of key management personnel**

Key management personnel of Saudi Aramco included directors and senior executive management. The compensations paid or payable to key management for services is shown below:

	<b>2017</b>	<b>2016</b>
Current employee benefits .....	<b>56</b>	71
Post-employment benefits .....	<b>53</b>	101
Other non-current benefits .....	<b>19</b>	19
Termination benefits .....	<b>15</b>	68
	<b>143</b>	<b>259</b>

**(d) Other transactions with key management personnel**

Other than as set out in Note 29 (c), there were no reportable transactions between Saudi Aramco and members of the key management personnel and their close family members during the year ended December 31, 2017 (2016: nil).

**30. Investment in affiliates**

**(a) Investment in subsidiaries**

**(i) Motiva Enterprises LLC**

On May 1, 2017, Motiva Enterprises LLC (“Motiva”), previously a joint venture (Note 7) between Saudi Aramco and Royal Dutch Shell plc (“Shell”), became a wholly-owned subsidiary as a result of Shell selling its entire equity interest in Motiva. The transaction comprised the exchange of certain assets and liabilities of Motiva and cash payments to Shell in the amount of SAR 3,341. As a result of the transaction, Saudi Aramco obtained sole ownership of Motiva’s remaining assets and liabilities, including the Port Arthur, Texas refinery with a crude capacity of more than 600,000 barrels per day, 24 distribution terminals and Motiva’s retained debt. This acquisition is in line with Saudi Aramco’s strategy of transforming into a globally integrated oil and gas company.

As part of this transaction, Saudi Aramco’s equity investment in Motiva of SAR 21,086 (Note 7), previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was remeasured to fair value which resulted in a loss of SAR 262 recognized in the current period as selling, administrative and general expense in the Consolidated Statement of Income.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

The following table summarizes the fair values of Motiva's assets and liabilities acquired on May 1, 2017:

Cash and cash equivalents . . . . .	2,790
Accounts receivable and other assets . . . . .	5,063
Inventories . . . . .	5,434
Property, plant and equipment . . . . .	33,724
Intangible assets . . . . .	3,176
Accounts payable and other liabilities . . . . .	(12,477)
Accounts payable to related parties . . . . .	(1,114)
Borrowings . . . . .	<u>(12,431)</u>
Total identifiable net assets at fair value . . . . .	24,165
Acquisition date fair value of previously held interest . . . . .	<u>(20,824)</u>
Net purchase consideration . . . . .	<u>3,341</u>

Acquisition and transaction costs totaled SAR 15 and SAR 11 for the periods ended December 31, 2017 and December 31, 2016, respectively, and were expensed as selling, administrative and general in the Consolidated Statement of Income.

The fair values of identifiable assets and liabilities were determined by management, assisted by an independent valuer, as part of the purchase price allocation process. Saudi Aramco has completed the accounting of the transaction.

Prior to May 1, 2017, Saudi Aramco's share of results in Motiva were reported as Share of results from joint ventures and associates in the Consolidated Statement of Income. Beginning on May 1, 2017, Motiva's results of operations were consolidated and the impact on revenue and net income in the Consolidated Statement of Income amount to SAR 65,483 and net income after taxes of SAR 1,043, respectively.

**(ii) North East Chemical Co., Ltd**

On October 1, 2017, Saudi Aramco through its majority-owned subsidiary, S-Oil Corporation ("S-Oil"), acquired a 100% interest in North East Chemicals Co., Ltd. (Note 32.B.) for total cash consideration of SAR 458. North East Chemicals is incorporated under the laws of the Republic of Korea to engage in the storage and handling of liquid chemicals. S-Oil has engaged an independent valuer in order to determine the fair values of the assets and liabilities of North East Chemicals as part of the purchase price allocation which has not yet concluded. An estimate of the fair value of the identifiable net assets and liabilities of North East Chemicals as at the date of acquisition was SAR 259 resulting in estimated goodwill of SAR 199. The goodwill paid comprises the value of expected synergies arising from the acquisition. Acquisition related costs of SAR 8 related to this transaction are reflected as operating and general expenses in the Consolidated Statement of Income.

**(b) Investment in joint arrangements**

On October 30, 2017, Aramco Overseas Company B.V. ("AOC") a wholly-owned subsidiary of Saudi Aramco, acquired a 9.61% investment in Maasvlakte Olie Terminal C.V. ("MOT CV") and a 16.67% investment in Maasvlakte Olie Terminal N.V. ("MOT NV") (together "MOT"), from Gunvor Petroleum Rotterdam B.V. ("Gunvor") for a cash purchase price of SAR 499, excluding transaction costs and contingent liabilities of SAR 11. The purchase price represents Gunvor's participation in both MOT CV and MOT NV. MOT provides tank storage services and is located in Rotterdam, Netherlands. AOC is one of six limited partners of MOT CV with MOT NV as the general partner. Based on the MOT CV participants agreement, MOT will be accounted for as a joint operation by AOC (Note 33). A valuation of MOT was performed by an independent valuer which determined that the consideration should be allocated primarily to MOT's intangible assets.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**(c) Investment in associate**

As disclosed in Note 7, on April 1, 2016, Saudi Aramco through its wholly-owned subsidiary Aramco Overseas Holding Cooperatief acquired from LANXESS a 50% interest in Arlanxeo for total consideration of SAR 5,340, including cash of SAR 5,160 and a contractual obligation measured at fair value of SAR 180. Arlanxeo is involved in the development, production, marketing, sale and distribution of synthetic rubber. The company has operations worldwide with manufacturing facilities in nine countries including the USA, Canada, Netherlands, Belgium, China, and Singapore.

Saudi Aramco engaged an independent valuer in order to determine the fair values of the assets and liabilities of Arlanxeo as part of the purchase price allocation. The fair values of the identifiable assets and liabilities of Arlanxeo as at the date of acquisition are as follows:

Intangible assets . . . . .	225
Property, plant and equipment . . . . .	6,750
Other non-current assets . . . . .	911
Net working capital . . . . .	4,530
Other current liabilities . . . . .	(2,494)
Other non-current liabilities . . . . .	(604)
Non-controlling interest . . . . .	<u>(19)</u>
Total identifiable net assets at fair value . . . . .	9,299
Saudi Aramco 50% share . . . . .	4,650
Goodwill . . . . .	<u>690</u>
Purchase consideration . . . . .	<u>5,340</u>

Acquisition related costs of SAR 15 related to this transaction were capitalized. The goodwill paid comprises the value of expected synergies arising from the acquisition.

**31. Events after the reporting period**

**(a) Cash dividends to the Government**

The consolidated financial statements do not reflect cash dividends to the Government in the amount of SAR 15,000 and SAR 56,250 which were approved and paid in January and March of 2018, respectively. Such dividends will be deducted from unappropriated retained earnings in the year ending December 31, 2018.

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**32. Subsidiaries of Saudi Arabian Oil Company**

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2017 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2017 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2017 <sup>(1)</sup>
<b>Wholly-owned:</b>					
Aramco Asia India	Purchasing and other services	India	6	5	—
Aramco Asia Japan KK	Purchasing and other services	Japan	78	154	—
Aramco Asia Korea Limited	Purchasing and other services	South Korea	10	1	—
Aramco Asia Singapore PTE Limited	Purchasing and other services	Singapore	23	2	—
Aramco Associated Company	Aircraft operations	USA	159	28	—
Aramco Affiliated Services Company	Support services	USA	—	—	—
Aramco Capital Company, LLC	Aircraft leasing	USA	104	—	—
Aramco Far East (Beijing) Business Services Co., Ltd.	Petrochemical purchasing/sales and other services	People's Republic of China	715	80	—
Aramco Financial Services Company	Financing	USA	—	—	—
Aramco Gulf Operations Company Ltd.	Production and sale of crude oil	Saudi Arabia	1,531	903	21
Aramco International Company Limited	Support services	British Virgin Islands	—	—	—
Aramco Overseas Company B.V.	Purchasing and other services	Netherlands	10,684	2,805	—
Aramco Overseas Company Spain, S.L.	Personnel and other support services	Spain	—	—	—
Aramco Overseas Company UK, Ltd.	Personnel and other support services	United Kingdom	5	19	—
Aramco Overseas Holdings Cooperatief U.A.	Investment	Netherlands	380	—	—
Aramco Overseas Malaysia SDN. BH D.	Personnel and other support services	Malaysia	—	—	—
Aramco Partnerships Company	Support services	USA	—	—	—
Aramco Performance Materials LLC	Petrochemical manufacture and sales	USA	3	8	—
Aramco Services Company	Purchasing, engineering and other services	USA	285	260	5
Bolanter Corporation N.V.	Crude oil storage	Curacao	800	—	142
Excellent Performance Chemicals Co LLC	Petrochemical manufacture and sales	Saudi Arabia	2,121	—	89
Motiva Employment LLC	Personnel and other support services	USA	—	—	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2017 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2017 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2017 <sup>(1)</sup>
Motiva Enterprises LLC	Refining and marketing	USA	7,589	18,495	—
Pandlewood Corporation N.V.	Financing	Curacao	5,491	—	56
Saudi Aramco Asia Company, Ltd.	Investment	Saudi Arabia	906	—	—
Saudi Aramco Capital Company Limited	Investment	Guernsey	—	—	—
Saudi Aramco Development Company	Investment	Saudi Arabia	468	—	8
Saudi Aramco Energy Ventures LLC	Investment	Saudi Arabia	3	9	—
SAEV Europe Limited	Investment	United Kingdom	6	—	—
SAEV Guernsey Holdings Limited	Investment	Guernsey	793	—	—
SAEV Guernsey I Ltd.	Investment	Guernsey	100	—	—
Saudi Aramco Energy Ventures – U.S. LLC	Investment	USA	—	—	—
Saudi Aramco Entrepreneurship Center Company Limited	Financing	Saudi Arabia	206	2	3
Saudi Aramco Entrepreneurship Venture Company, Ltd.	Investment	Saudi Arabia	83	—	—
Saudi Aramco Investment Management Company LLC	Investment management of post-employment benefit plans	Saudi Arabia	2	—	—
Saudi Aramco Power Holding Company	Power generation	Saudi Arabia	31	—	—
Saudi Aramco Products Trading Company	Importing/exporting refined products	Saudi Arabia	13,462	5,136	64
Saudi Aramco Sukuk Company	Investment	Saudi Arabia	—	60	—
Saudi Aramco Technologies LLC	Research and commercialization	Saudi Arabia	18	14	—
Saudi Aramco Trading Singapore Pte. Ltd.	Marketing and sales support	Singapore	5	—	—
Saudi Aramco Upstream Technology Company	Research and commercialization	Saudi Arabia	5	32	—
Saudi Petroleum International, Inc.	Marketing support services	USA	27	17	—
Saudi Petroleum, Ltd.	Marketing support and tanker services	British Virgin Islands	18	—	—
Saudi Petroleum Overseas, Ltd.	Marketing support and tanker services	United Kingdom	34	11	—
Saudi Refining, Inc.	Refining and marketing	USA	211	37	—
Stellar Insurance, Ltd.	Insurance	Bermuda	8,162	655	—
Vela International Marine Limited	Marine management and transportation	Liberia	22,140	—	176
Wisayah Alkhaleej Investment Company	Financial support	Saudi Arabia	55	—	—

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2017 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2017 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2017 <sup>(1)</sup>
<b>Non-wholly owned</b>					
80% ownership of Johns Hopkins Aramco Healthcare Limited, LLC . . . . .	Healthcare	Saudi Arabia	481	800	—
61.6% ownership of North East Chemicals Company, Ltd . . . . .	Liquid chemicals storage	South Korea	—	—	—
70% ownership of Saudi Aramco Base Oil Company - Luberef . . . . .	Production and sale of petroleum based lubricants	Saudi Arabia	374	339	—
61.6% ownership of S-Oil Corporation . . . . .	Refining	South Korea	13,650	21,707	172
61.6% ownership of S-International Ltd. . . . .	Purchasing and sale of petroleum goods	The Independent State of Samoa	4	—	—
50% Saudi Aramco Rowan Offshore Drilling Company <sup>(2)</sup> . . . . .	Drilling	Saudi Arabia	151	1,125	—
49% ownership of Aramco Training Services Company <sup>(2)</sup> . . . . .	Training	USA	—	—	—

(1) Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.  
(2) Agreements and constitutive documents provide Saudi Aramco control.



**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions of Saudi Riyals unless otherwise stated)*

**33. Joint operations of Saudi Arabian Oil Company**

	Principal business activity	Percent ownership	Place of business / country of incorporation	Conventional financial assets as of December 31, 2017 <sup>(1)</sup>	Conventional financial liabilities as of December 31, 2017 <sup>(1)</sup>	Interest income from conventional financial assets for the year ended December 31, 2017 <sup>(1)</sup>
Al-Khafji Joint Operations	Oil and gas exploration and production	50%	Saudi-Kuwaiti Partitioned Zone	79	7	—
Fadhili Plant Cogeneration Company	Power generation	30%	Saudi Arabia	5	513	—
Maasvlakte Olie Terminal C.V. (Note 30(b))	Tank storage	9.61%	Netherlands	1	44	—
Maasvlakte Olie Terminal N.V. (Note 30(b))	Tank storage	16.67%	Netherlands	—	1	—
Power Cogeneration Plant Company, LLC	Power generation	50%	Saudi Arabia	147	1,160	—
Saudi Aramco Mobil Refinery Company Ltd.	Refining	50%	Saudi Arabia	1,032	1,094	—
Saudi Aramco Nabors Drilling Company	Drilling	50%	Saudi Arabia	220	210	—
Saudi Aramco Shell Refinery Company	Refining	50%	Saudi Arabia	543	401	—
Saudi Aramco Total Refining and Petrochemical Company <sup>(1)</sup>	Refining and petrochemical	62.50%	Saudi Arabia	2,223	11,255	—
Yanbu Aramco Sinopec Refining Company Ltd. <sup>(2)</sup>	Refining	62.50%	Saudi Arabia	2,061	7,634	—

(1) Represents Saudi Aramco's share of conventional financial assets, financial liabilities and interest income.

(2) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint operation does not qualify as a subsidiary.

# **SAUDI ARABIAN OIL COMPANY**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2019 (UNAUDITED)**



***Report on review of the condensed consolidated interim financial report***

To the shareholder of Saudi Arabian Oil Company

**Introduction**

We have reviewed the accompanying condensed consolidated balance sheet of Saudi Arabian Oil Company and its subsidiaries as at June 30, 2019 and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month and six-month periods then ended and the related condensed consolidated statement of changes in equity for the six-month period then ended and explanatory notes (the “condensed consolidated interim financial report”). Management is responsible for the preparation and presentation of this condensed consolidated interim financial report in accordance with International Accounting Standard 34, ‘Interim financial reporting’, that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, ‘Review of interim financial information performed by the independent auditor of the entity’, that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial report is not prepared, in all material respects, in accordance with International Accounting Standard 34, ‘Interim financial reporting’, that is endorsed in the Kingdom of Saudi Arabia.

**PricewaterhouseCoopers**

A handwritten signature in blue ink, consisting of a stylized 'B' and 'I' followed by a horizontal line and a loop.

Bader I. Benmohareb  
License Number 471

August 8, 2019

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**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

	Note	SAR				USD*			
		2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
Revenue	11	283,960	300,017	550,720	557,870	75,723	80,004	146,859	148,765
Other income related to sales		35,498	41,259	63,836	70,916	9,466	11,002	17,023	18,911
<b>Revenue and other income related to sales</b>		<b>319,458</b>	<b>341,276</b>	<b>614,556</b>	<b>628,786</b>	<b>85,189</b>	<b>91,006</b>	<b>163,882</b>	<b>167,676</b>
Production royalties and excise and other taxes		(47,988)	(52,975)	(94,158)	(95,827)	(12,797)	(14,127)	(25,109)	(25,554)
Purchases		(51,561)	(49,427)	(97,312)	(88,189)	(13,750)	(13,180)	(25,950)	(23,517)
Producing and manufacturing		(15,586)	(13,819)	(29,512)	(24,323)	(4,156)	(3,685)	(7,870)	(6,486)
Selling, administrative and general		(9,083)	(7,537)	(16,922)	(15,856)	(2,422)	(2,010)	(4,512)	(4,228)
Exploration		(1,553)	(2,065)	(3,527)	(4,225)	(414)	(551)	(941)	(1,127)
Research and development		(504)	(497)	(951)	(1,035)	(135)	(132)	(254)	(276)
Depreciation and amortization	5.6	(11,927)	(10,305)	(24,297)	(19,763)	(3,180)	(2,748)	(6,479)	(5,270)
<b>Operating costs</b>		<b>(138,202)</b>	<b>(136,625)</b>	<b>(266,679)</b>	<b>(249,218)</b>	<b>(36,854)</b>	<b>(36,433)</b>	<b>(71,115)</b>	<b>(66,458)</b>
<b>Operating income</b>		<b>181,256</b>	<b>204,651</b>	<b>347,877</b>	<b>379,568</b>	<b>48,335</b>	<b>54,573</b>	<b>92,767</b>	<b>101,218</b>
Share of results of joint ventures and associates		(588)	(68)	(1,432)	314	(157)	(18)	(382)	84
Finance and other income		1,556	568	3,168	1,104	415	151	845	294
Finance costs		(1,518)	(695)	(2,779)	(1,387)	(405)	(185)	(741)	(370)
<b>Income before income taxes</b>		<b>180,706</b>	<b>204,456</b>	<b>346,834</b>	<b>379,599</b>	<b>48,188</b>	<b>54,521</b>	<b>92,489</b>	<b>101,226</b>
<b>Income taxes</b>	8	<b>(88,121)</b>	<b>(97,568)</b>	<b>(170,963)</b>	<b>(180,779)</b>	<b>(23,499)</b>	<b>(26,017)</b>	<b>(45,590)</b>	<b>(48,207)</b>
<b>Net income</b>		<b>92,585</b>	<b>106,888</b>	<b>175,871</b>	<b>198,820</b>	<b>24,689</b>	<b>28,504</b>	<b>46,899</b>	<b>53,019</b>
<b>Net income attributable to</b>									
Shareholder's equity		92,791	106,574	176,017	198,361	24,744	28,420	46,938	52,896
Non-controlling interests		(206)	314	(146)	459	(55)	84	(39)	123
		<b>92,585</b>	<b>106,888</b>	<b>175,871</b>	<b>198,820</b>	<b>24,689</b>	<b>28,504</b>	<b>46,899</b>	<b>53,019</b>

\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.



**Amin H. Nasser**  
President & Chief Executive  
Officer



**Khalid H. Al-Dabbagh**  
Senior Vice President, Finance, Strategy &  
Development



**Salah M. Al-Hareky**  
Controller

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	SAR				USD*			
		2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
Net income		92,585	106,888	175,871	198,820	24,689	28,504	46,899	53,019
Other comprehensive (loss) income, net of tax	9								
Items that will not be reclassified to net income									
Remeasurement of post-employment benefit obligations		(2,627)	5,753	(4,668)	5,753	(701)	1,534	(1,245)	1,534
Change in post-employment benefit deferred tax asset due to new income tax rate		—	1,085	—	48	—	289	—	13
Changes in fair value of equity investments classified as fair value through other comprehensive income		(308)	303	144	255	(82)	81	38	68
Items that may be reclassified subsequently to net income									
Cash flow hedges and other		(358)	46	(482)	174	(95)	12	(128)	46
Changes in fair value of debt securities classified as fair value through other comprehensive income		37	(64)	60	(896)	10	(17)	16	(239)
Share of other comprehensive loss of joint ventures and associates		(344)	(409)	(464)	(124)	(92)	(109)	(124)	(33)
Currency translation differences		(275)	(1,396)	(784)	(1,270)	(73)	(373)	(209)	(339)
		<u>(3,875)</u>	<u>5,318</u>	<u>(6,194)</u>	<u>3,940</u>	<u>(1,033)</u>	<u>1,417</u>	<u>(1,652)</u>	<u>1,050</u>
<b>Total comprehensive income</b>		<b>88,710</b>	<b>112,206</b>	<b>169,677</b>	<b>202,760</b>	<b>23,656</b>	<b>29,921</b>	<b>45,247</b>	<b>54,069</b>
<b>Total comprehensive income attributable to</b>									
Shareholder's equity		89,080	112,423	170,132	202,785	23,754	29,979	45,368	54,076
Non-controlling interests		(370)	(217)	(455)	(25)	(98)	(58)	(121)	(7)
		<u>88,710</u>	<u>112,206</u>	<u>169,677</u>	<u>202,760</u>	<u>23,656</u>	<u>29,921</u>	<u>45,247</u>	<u>54,069</u>

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**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**CONDENSED CONSOLIDATED BALANCE SHEET**

	Note	SAR		USD*	
		June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	929,496	873,827	247,866	233,021
Intangible assets	6	27,427	26,896	7,314	7,172
Investments in joint ventures and associates		22,614	22,579	6,030	6,021
Deferred income tax assets		10,713	9,866	2,857	2,631
Other assets and receivables		18,128	13,127	4,834	3,501
Investments in securities		18,855	17,214	5,028	4,590
		<u>1,027,233</u>	<u>963,509</u>	<u>273,929</u>	<u>256,936</u>
<b>Current assets</b>					
Inventories		45,164	43,580	12,044	11,621
Trade receivables		100,178	93,818	26,714	25,018
Due from the Government		46,715	48,140	12,457	12,837
Other assets and receivables		11,464	13,775	3,057	3,673
Short-term investments		45,452	194	12,120	52
Cash and cash equivalents		148,225	183,152	39,527	48,841
		<u>397,198</u>	<u>382,659</u>	<u>105,919</u>	<u>102,042</u>
<b>Total assets</b>		<u>1,424,431</u>	<u>1,346,168</u>	<u>379,848</u>	<u>358,978</u>
<b>Equity and liabilities</b>					
<b>Shareholder's equity</b>					
Share capital		60,000	60,000	16,000	16,000
Additional paid-in capital		26,981	26,981	7,195	7,195
Retained earnings:					
Unappropriated		918,011	920,625	244,803	245,500
Appropriated		6,000	6,000	1,600	1,600
Other reserves	9	1,959	3,176	522	847
		<u>1,012,951</u>	<u>1,016,782</u>	<u>270,120</u>	<u>271,142</u>
<b>Non-controlling interests</b>		<u>11,176</u>	<u>11,653</u>	<u>2,980</u>	<u>3,107</u>
		<u>1,024,127</u>	<u>1,028,435</u>	<u>273,100</u>	<u>274,249</u>
<b>Non-current liabilities</b>					
Borrowings	10	134,472	71,329	35,859	19,021
Deferred income tax liabilities		26,958	23,877	7,189	6,367
Post-employment benefit obligations		33,505	23,209	8,935	6,189
Provisions		16,519	15,606	4,405	4,162
		<u>211,454</u>	<u>134,021</u>	<u>56,388</u>	<u>35,739</u>
<b>Current liabilities</b>					
Trade and other payables		68,279	72,286	18,208	19,276
Obligations to the Government:					
Income taxes	8	69,174	69,575	18,446	18,553
Royalties		12,990	11,862	3,464	3,164
Borrowings	10	38,407	29,989	10,242	7,997
		<u>188,850</u>	<u>183,712</u>	<u>50,360</u>	<u>48,990</u>
		<u>400,304</u>	<u>317,733</u>	<u>106,748</u>	<u>84,729</u>
<b>Total equity and liabilities</b>		<u>1,424,431</u>	<u>1,346,168</u>	<u>379,848</u>	<u>358,978</u>

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**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	SAR							USD*	
	Shareholder's equity							Total	
	Share capital	Stated capital	Additional paid-in capital	Retained earnings		Other reserves (Note 9)	Non-controlling interests		
			Unappropriated	Appropriated					
<b>Balance at January 1, 2018</b> .....	—	60,000	26,981	715,107	6,000	5,670	12,556	826,314	220,350
Net income .....	—	—	—	198,361	—	—	459	198,820	53,019
Other comprehensive income (loss) .....	—	—	—	—	—	4,424	(484)	3,940	1,050
Total comprehensive income (loss) .....	—	—	—	198,361	—	4,424	(25)	202,760	54,069
Conversion to joint stock company .....	60,000	(60,000)	—	—	—	—	—	—	—
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	5,801	—	(5,801)	—	—	—
Dividends .....	—	—	—	(120,000)	—	—	—	(120,000)	(32,000)
Change in control of an affiliate .....	—	—	—	—	—	—	79	79	21
Dividends to non-controlling interests .....	—	—	—	—	—	—	(812)	(812)	(216)
<b>Balance at June 30, 2018</b> .....	60,000	—	26,981	799,269	6,000	4,293	11,798	908,341	242,224
<b>Balance at January 1, 2019</b> .....	60,000	—	26,981	920,625	6,000	3,176	11,653	1,028,435	274,249
Net income (loss) .....	—	—	—	176,017	—	—	(146)	175,871	46,899
Other comprehensive loss .....	—	—	—	—	—	(5,885)	(309)	(6,194)	(1,652)
Total comprehensive income (loss) .....	—	—	—	176,017	—	(5,885)	(455)	169,677	45,247
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	(4,668)	—	4,668	—	—	—
Dividends .....	—	—	—	(173,963)	—	—	—	(173,963)	(46,390)
Dividends to non-controlling interests .....	—	—	—	—	—	—	(22)	(22)	(6)
<b>Balance at June 30, 2019</b> .....	60,000	—	26,981	918,011	6,000	1,959	11,176	1,024,127	273,100

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**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	SAR				USD*			
		2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
<b>Income before income taxes</b>		<b>180,706</b>	204,456	<b>346,834</b>	379,599	<b>48,188</b>	54,521	<b>92,489</b>	101,226
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities</b>									
Depreciation and amortization	5,6	11,927	10,305	24,297	19,763	3,180	2,748	6,479	5,270
Exploration and evaluation costs written off		595	896	1,539	1,618	158	239	410	432
Share of results of joint ventures and associates		588	68	1,432	(314)	157	18	382	(84)
Finance income		(1,274)	(508)	(2,714)	(996)	(340)	(136)	(724)	(266)
Finance costs		1,518	695	2,779	1,387	405	185	741	370
Dividends from investments in securities		(264)	(57)	(432)	(103)	(70)	(16)	(115)	(28)
Change in fair value of investments through profit or loss		(409)	(44)	(216)	(33)	(109)	(12)	(58)	(9)
Change in joint ventures and associates inventory profit elimination		193	161	87	169	51	43	23	45
Other		(97)	(1,462)	197	(1,656)	(26)	(389)	53	(441)
<b>Change in working capital</b>									
Inventories		(1,548)	(3,598)	(1,584)	(7,089)	(412)	(959)	(422)	(1,890)
Trade receivables		(3,224)	(25,426)	(7,458)	(31,282)	(860)	(6,780)	(1,989)	(8,342)
Due from the Government		(1,516)	(10,592)	1,425	(5,573)	(404)	(2,824)	380	(1,486)
Other assets and receivables		352	(764)	2,562	(4,783)	94	(203)	683	(1,275)
Trade and other payables		(1,003)	4,054	(4,328)	5,935	(267)	1,081	(1,154)	1,583
Royalties payable		(2,847)	(1,192)	1,128	(1,784)	(759)	(318)	300	(476)
<b>Other changes</b>									
Other assets and receivables		(3,349)	(883)	(5,732)	(1,116)	(893)	(236)	(1,528)	(298)
Provisions		673	249	737	112	180	66	197	30
Post-employment benefit obligations		2,641	(2,263)	1,062	(2,753)	704	(603)	283	(734)
Settlement of income and other taxes	8(c)	(79,000)	(79,842)	(164,926)	(155,888)	(21,066)	(21,291)	(43,980)	(41,570)
<b>Net cash provided by operating activities</b>		<b>104,662</b>	94,253	<b>196,689</b>	195,213	<b>27,911</b>	25,134	<b>52,450</b>	52,057
<b>Net cash used in investing activities</b>									
Capital expenditures	4	(27,363)	(31,182)	(54,263)	(61,741)	(7,297)	(8,315)	(14,470)	(16,464)
Acquisition of affiliates, net of cash acquired		(385)	—	(385)	(2,662)	(103)	—	(103)	(710)
Distributions from joint ventures and associates		626	960	660	988	167	256	176	263
Additional investment in joint ventures and associates		(236)	(23)	(321)	(23)	(63)	(6)	(86)	(6)
Dividends from investments in securities		264	57	432	103	70	16	115	28
Interest received		962	490	2,463	954	257	130	657	254
Net investments in securities		(549)	(173)	(607)	(246)	(147)	(46)	(162)	(66)
Net (purchases) maturities of short-term investments		(44,900)	1,158	(45,258)	4,105	(11,973)	309	(12,068)	1,095
<b>Net cash used in investing activities</b>		<b>(71,581)</b>	(28,713)	<b>(97,279)</b>	(58,522)	<b>(19,089)</b>	(7,656)	<b>(25,941)</b>	(15,606)
<b>Net cash used in financing activities</b>									
Dividends		(87,713)	(48,750)	(173,963)	(120,000)	(23,390)	(13,000)	(46,390)	(32,000)
Dividends paid to non-controlling interests		(22)	(782)	(22)	(812)	(6)	(208)	(6)	(216)
Interest paid		(1,432)	(884)	(2,376)	(1,315)	(382)	(236)	(634)	(351)
Proceeds from borrowings		46,555	1,992	47,963	4,491	12,414	531	12,790	1,197
Repayments of borrowings		(4,091)	(1,761)	(5,939)	(4,871)	(1,090)	(470)	(1,583)	(1,299)
<b>Net cash used in financing activities</b>		<b>(46,703)</b>	(50,185)	<b>(134,337)</b>	(122,507)	<b>(12,454)</b>	(13,383)	<b>(35,823)</b>	(32,669)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(13,622)</b>	15,355	<b>(34,927)</b>	14,184	<b>(3,632)</b>	4,095	<b>(9,314)</b>	3,782
Cash and cash equivalents at beginning of the period		161,847	80,071	183,152	81,242	43,159	21,352	48,841	21,665
<b>Cash and cash equivalents at end of the period</b>		<b>148,225</b>	95,426	<b>148,225</b>	95,426	<b>39,527</b>	25,447	<b>39,527</b>	25,447

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**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**

**1. General information**

The Saudi Arabian Oil Company (the “Company”), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the “Kingdom”), is engaged in the exploration, production, transportation and sale of crude oil and natural gas (“Upstream”) and the manufacture, transportation and sale of petroleum products (“Downstream”). The Company was formed on November 13, 1988 by Royal Decree No. M/8; however, its history dates back to May 29, 1933 when the Kingdom granted a concession to the Company’s predecessor the right to, among other things, explore the Kingdom for hydrocarbons. Effective January 1, 2018, Council of Minister’s Resolution No. 180, dated 1/4/1439H (December 19, 2017) converted the Company to a Saudi Joint Stock Company with new Bylaws.

The condensed consolidated interim financial report of the Company and its subsidiaries (together “Saudi Aramco”) was approved by the Board of Directors on August 8, 2019.

**2. Basis of preparation and other significant accounting policies**

The condensed consolidated interim financial report has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting, that is endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). This condensed consolidated interim financial report is consistent with the accounting policies and methods of computation set out in Saudi Aramco’s December 31, 2018 consolidated financial statements, except for, new and amended standards disclosed below. There are no changes to the significant judgements and estimates disclosed in the December 31, 2018 consolidated financial statements, other than for those disclosed in this condensed consolidated interim financial report. Saudi Aramco has not early adopted any new accounting standards, interpretations or amendments that are issued but not yet effective.

The results for the interim periods are unaudited and include all adjustments necessary for a fair presentation of the results for the periods presented. This condensed consolidated interim financial report should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom, and other standards and pronouncements issued by SOCPA. The consolidated financial statements for the year ended December 31, 2018 are also in compliance with IFRS as issued by the International Accounting Standards Board (“IASB”).

Translations from SAR to USD presented as supplementary information in the Condensed Consolidated Statement of Income, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, and Condensed Consolidated Statement of Cash Flows at June 30, 2019 and December 31, 2018 and for the three and six-month periods ended June 30, 2019 and 2018, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the balance sheet dates.

**New and amended standards**

Saudi Aramco adopted for the first time the following IASB pronouncement, as endorsed in the Kingdom, effective for annual periods beginning on or after January 1, 2019:

**IFRS 16, Leases**

IFRS 16, Leases, as issued by the IASB in January 2016, replaced IAS 17, Leases that relates to the recognition, measurement, presentation and disclosure of leases. Saudi Aramco adopted IFRS 16, using the modified retrospective approach, from its mandatory adoption date of January 1, 2019.

Until 2018, leased assets were classified as either finance or operating leases. Payments made under operating leases were charged to net income on a straight-line basis over the period of the lease. On adoption of IFRS 16, right-of-use assets and lease liabilities of SAR 26,051 were recognized for previously

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**

*All amounts in millions unless otherwise stated*

classified operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. For leases previously classified as finance leases, Saudi Aramco continued to recognize the same carrying amount of the lease asset and lease liability as immediately before transition. There was no impact of adoption of IFRS 16 on the opening retained earnings at January 1, 2019.

In accordance with the transition provisions in IFRS 16, comparative figures have not been restated and the following practical expedients were applied on transition: a) the use of a single discount rate for a portfolio of leases with reasonably similar characteristics; b) reliance on previous assessments on whether leases are onerous; c) the accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases; d) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; e) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; f) not to separate the lease and non-lease component except for leases of drilling equipment; and g) not to reassess whether a contract is, or contains a lease.

The table below presents the reconciliation between operating lease commitments disclosed in the consolidated financial statements for the year ended December 31, 2018 and the lease liability recognized at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.1%.

	<u>January 1, 2019</u>
Operating lease commitments disclosed at December 31, 2018 .....	<b>35,565</b>
Discounted using Saudi Aramco's incremental borrowing rate at January 1, 2019 .....	<b>27,814</b>
Add: finance lease liabilities recognized at December 31, 2018 .....	<b>13,058</b>
(Less): short-term leases recognized on a straight-line basis as expense .....	<b>(1,647)</b>
(Less): low value leases recognized on a straight-line basis as expense .....	<b>(116)</b>
Lease liability recognized at January 1, 2019 .....	<b><u>39,109</u></b>
Current lease liabilities .....	<b>6,439</b>
Non-current lease liabilities .....	<b><u>32,670</u></b>
	<b><u>39,109</u></b>

Saudi Aramco's portfolio of leased assets is mainly comprised of drilling rigs, marine vessels, industrial facilities, equipment, aircraft and vehicles. After the transition date of January 1, 2019, the following recognition, measurement, presentation and disclosure principles are applied to account for leases:

- Right-of-use assets are measured at cost, which comprise lease liabilities at initial measurement, any initial direct costs incurred, and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are included under property, plant and equipment (Note 5). Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.
- Lease liabilities are initially measured at present value of lease payments. Lease payments include fixed lease payments, variable lease payments that depend on an index or rate, amounts payable for guaranteed residual values and payments to be made under renewal or purchase or termination options, where applicable. Lease liabilities are included under borrowings (Note 10). Lease payments are allocated between the liability and finance costs. Finance costs are charged to net income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- Saudi Aramco has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments under short-term and low-value leases are recorded on a straight-line basis over the lease term.

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

*Significant accounting judgments and estimates*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Other standards did not have any impact on Saudi Aramco's accounting policies and did not require retrospective adjustments.

The IFRS Interpretations Committee reached an agenda decision at its March 2019 meeting in relation to the accounting treatment for physical settlement of contracts to buy or sell non-financial items (e.g. oil and gas products), that do not meet the own use exemption under IFRS 9, Financial Instruments. The Committee determined that such derivative contracts are within the scope of IFRS 9. Saudi Aramco is currently assessing the impact of the agenda decision on its consolidated financial statements.

**Reclassifications**

Certain comparative amounts in the Condensed Consolidated Statement of Income for the three and six-month periods ended June 30, 2018 have been reclassified to conform with the current period presentation. Such reclassifications did not impact the previously reported net income.

**3. Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco's financial assets and liabilities that are measured and recognized at amortized cost are not materially different from their carrying amounts at the end of the reporting period.

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

The following table presents Saudi Aramco's assets and liabilities that are measured and recognized at fair value at June 30, 2019 and December 31, 2018 based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at June 30, 2019. There were no changes made to any of the valuation techniques and valuation processes applied as of December 31, 2018 and changes in unobservable inputs are not expected to materially impact the fair value.

<u>Assets</u>	<u>Level 1<sup>i</sup></u>	<u>Level 2<sup>ii</sup></u>	<u>Level 3<sup>iii</sup></u>	<u>Total</u>
<b>June 30, 2019:</b>				
Investments in securities:				
Equity securities at Fair Value Through Other Comprehensive Income ("FVOCI")	7,964	—	1,383	9,347
Debt securities at FVOCI	16	4,493	—	4,509
Equity securities at Fair Value Through Profit Or Loss ("FVPL")	—	1,088	4,428	5,516
Trade receivables related to contracts with provisional pricing arrangements	—	—	76,784	76,784
	<u>7,980</u>	<u>5,581</u>	<u>82,595</u>	<u>96,156</u>
Other current assets:				
Interest rate swaps	—	85	—	85
Commodity swaps	—	277	21	298
Currency forward contracts	—	21	—	21
	<u>—</u>	<u>383</u>	<u>21</u>	<u>404</u>
<b>Total assets</b>	<u>7,980</u>	<u>5,964</u>	<u>82,616</u>	<u>96,560</u>
December 31, 2018:				
Investments in securities:				
Equity securities at FVOCI	7,324	—	1,293	8,617
Debt securities at FVOCI	19	3,908	—	3,927
Equity securities at FVPL	—	991	4,237	5,228
Trade receivables related to contracts with provisional pricing arrangements	—	—	73,509	73,509
	<u>7,343</u>	<u>4,899</u>	<u>79,039</u>	<u>91,281</u>
Other current assets:				
Interest rate swaps	—	191	—	191
Commodity swaps	184	2,393	—	2,577
Currency forward contracts	—	33	—	33
	<u>184</u>	<u>2,617</u>	<u>—</u>	<u>2,801</u>
<b>Total assets</b>	<u>7,527</u>	<u>7,516</u>	<u>79,039</u>	<u>94,082</u>
<b>Liabilities</b>				
	<u>Level 1<sup>i</sup></u>	<u>Level 2<sup>ii</sup></u>	<u>Level 3<sup>iii</sup></u>	<u>Total</u>
<b>June 30, 2019:</b>				
Interest rate swaps	—	330	—	330
Commodity swaps	—	527	189	716
Currency forward contracts	—	236	—	236
	<u>—</u>	<u>1,093</u>	<u>189</u>	<u>1,282</u>
December 31, 2018:				
Interest rate swaps	—	71	—	71
Commodity swaps	—	1,069	—	1,069
Currency forward contracts	—	180	—	180
	<u>—</u>	<u>1,320</u>	<u>—</u>	<u>1,320</u>

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

- i) Quoted prices (unadjusted) in active markets for identical assets or liabilities  
ii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable  
iii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The changes in Level 3 investments in securities and other current assets for the six-month period ended June 30, 2019 and the year ended December 31, 2018 are as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Beginning</b> .....	<b>5,530</b>	5,283
Net additions .....	<b>116</b>	389
Acquisition .....	—	11
Realized gain .....	—	8
Net movement in unrealized fair value gain/(loss) .....	<b>165</b>	(161)
Transfer from level 2 .....	<b>21</b>	—
<b>Ending</b> .....	<b>5,832</b>	<b>5,530</b>

The movement in trade receivables related to contracts with provisional pricing arrangements mainly relates to sales transactions, net of settlements, made during the period, resulting from contracts with customers. Unrealized fair value movements on these trade receivables are not significant.

#### 4. Operating segments

Saudi Aramco operates in the oil and gas industry within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside of the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At June 30, 2019, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into a Corporate segment. Upstream activities include crude oil, natural gas and natural gas liquids exploration, field development and production. Downstream activities include the refining, logistics, power generation, and the marketing of crude oil, petroleum and petrochemical products and related services to international and domestic customers. Corporate activities include primarily supporting services including Human Resources, Finance and IT not allocated to Upstream and Downstream. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

There are no differences from the 2018 consolidated financial statements in the basis of segmentation or in the basis of measurement of segment earnings before interest and income taxes.

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

Information by segments for the three-month period ended June 30, 2019 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	182,526	101,147	287	—	283,960
Other income related to sales . . . . .	9,669	25,829	—	—	35,498
Inter-segment revenue . . . . .	64,918	9,149	58	(74,125)	—
Earnings (losses) before interest and income taxes . . . . .	184,162	(3,247)	(2,905)	2,940	180,950
Finance income . . . . .					1,274
Finance costs . . . . .					(1,518)
Income before income taxes . . . . .					180,706
Capital expenditures—cash basis . . . . .	20,966	6,114	283	—	27,363

Information by segments for the three-month period ended June 30, 2018 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	196,821	102,916	280	—	300,017
Other income related to sales . . . . .	9,708	31,551	—	—	41,259
Inter-segment revenue . . . . .	72,733	5,290	30	(78,053)	—
Earnings (losses) before interest and income taxes . . . . .	203,652	6,420	(2,261)	(3,168)	204,643
Finance income . . . . .					508
Finance costs . . . . .					(695)
Income before income taxes . . . . .					204,456
Capital expenditures—cash basis . . . . .	22,202	8,611	369	—	31,182

Information by segments for the six-month period ended June 30, 2019 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	356,528	193,655	537	—	550,720
Other income related to sales . . . . .	15,170	48,666	—	—	63,836
Inter-segment revenue . . . . .	122,520	16,711	147	(139,378)	—
Earnings (losses) before interest and income taxes . . . . .	354,108	1,869	(6,003)	(3,075)	346,899
Finance income . . . . .					2,714
Finance costs . . . . .					(2,779)
Income before income taxes . . . . .					346,834
Capital expenditures—cash basis . . . . .	41,930	11,564	769	—	54,263

Information by segments for the six-month period ended June 30, 2018 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	364,634	192,688	548	—	557,870
Other income related to sales . . . . .	16,644	54,272	—	—	70,916
Inter-segment revenue . . . . .	138,150	12,818	120	(151,088)	—
Earnings (losses) before interest and income taxes . . . . .	377,181	13,750	(4,478)	(6,463)	379,990
Finance income . . . . .					996
Finance costs . . . . .					(1,387)
Income before income taxes . . . . .					379,599
Capital expenditures—cash basis . . . . .	44,563	16,085	1,093	—	61,741

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**5. Property, plant and equipment**

	Crude oil facilities	Refinery and petrochemical facilities	Gas and NGL facilities	General service plant	Construction in progress	Total
<b>Cost</b>						
January 1, 2019	503,281	205,233	361,141	88,482	257,607	1,415,744
Adjustment for change in accounting policy (Note 2)	6,337	8,005	254	11,455	—	26,051
Additions	1,808	2,263	187	597	49,501	54,356
Construction completed	10,454	2,909	12,328	1,533	(27,224)	—
Currency translation differences	—	(1,602)	—	—	(87)	(1,689)
Transfers	(140)	75	307	6	(29)	219
Transfer of exploration and evaluation assets	—	—	—	—	1,189	1,189
Retirements and sales	(1,886)	(175)	(58)	(335)	(1)	(2,455)
<b>June 30, 2019</b>	<b>519,854</b>	<b>216,708</b>	<b>374,159</b>	<b>101,738</b>	<b>280,956</b>	<b>1,493,415</b>
<b>Accumulated depreciation</b>						
January 1, 2019	(253,544)	(74,438)	(160,220)	(53,715)	—	(541,917)
Additions	(8,930)	(5,421)	(6,663)	(2,750)	—	(23,764)
Currency translation differences	—	532	—	—	—	532
Transfers	(24)	97	(354)	10	—	(271)
Retirements and sales	1,061	94	41	305	—	1,501
<b>June 30, 2019</b>	<b>(261,437)</b>	<b>(79,136)</b>	<b>(167,196)</b>	<b>(56,150)</b>	<b>—</b>	<b>(563,919)</b>
<b>Property, plant and equipment— net, June 30, 2019</b>	<b>258,417</b>	<b>137,572</b>	<b>206,963</b>	<b>45,588</b>	<b>280,956</b>	<b>929,496</b>

The following table presents depreciation charges and net carrying amounts of right-of-use assets by class of assets.

	Depreciation expense	Right-of-use assets at
	Six months 2019	June 30 2019
Crude oil facilities	1,144	6,786
Refinery and petrochemical facilities	563	5,639
Gas and NGL facilities	86	267
General service plant	1,605	27,708
	<b>3,398</b>	<b>40,400</b>

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**6. Intangible assets**

	Exploration and evaluation	Brands and trademarks	Franchise/ customer relationships	Computer software	Other	Total
<b>Cost</b>						
January 1, 2019 .....	18,916	4,827	1,263	4,310	2,157	31,473
Additions .....	3,637	—	—	273	3	3,913
Currency translation differences .....	—	(58)	(18)	—	(23)	(99)
Transfers .....	—	26	(24)	(211)	57	(152)
Transfer of exploration and evaluation assets .....	(1,189)	—	—	—	—	(1,189)
Write-offs .....	(1,539)	—	—	—	—	(1,539)
<b>June 30, 2019 .....</b>	<b><u>19,825</u></b>	<b><u>4,795</u></b>	<b><u>1,221</u></b>	<b><u>4,372</u></b>	<b><u>2,194</u></b>	<b><u>32,407</u></b>
<b>Accumulated amortization:</b>						
January 1, 2019 .....	—	(1,046)	(715)	(2,541)	(275)	(4,577)
Additions .....	—	(221)	(87)	(163)	(62)	(533)
Transfers .....	—	22	24	44	40	130
<b>June 30, 2019 .....</b>	<b><u>—</u></b>	<b><u>(1,245)</u></b>	<b><u>(778)</u></b>	<b><u>(2,660)</u></b>	<b><u>(297)</u></b>	<b><u>(4,980)</u></b>
<b>Intangible assets—net, June 30, 2019 .....</b>	<b><u>19,825</u></b>	<b><u>3,550</u></b>	<b><u>443</u></b>	<b><u>1,712</u></b>	<b><u>1,897</u></b>	<b><u>27,427</u></b>

**7. Investments in securities**

On April 1, 2019, Saudi Aramco received 23.1 million common shares of Idemitsu Kosan Co., Ltd. (“Idemitsu”) in exchange for its shareholding of 56.4 million common shares of Showa Shell Sekiyu, K.K. (“Showa Shell”). This is pursuant to the terms of a merger agreement in October 2018 between Showa Shell and Idemitsu. As a result of this transaction, the Company’s interest in Idemitsu is 7.7% of Idemitsu’s total common shares. The investment in Idemitsu in the amount of SAR 2,603 at June 30, 2019 is accounted for at fair value through other comprehensive income.

**8. Income taxes**

**(a) Kingdom income tax rates**

The Company is subject to an income tax rate of 20% on the sales, exchange or conversion of natural gas, its liquids and gas condensates, including sulfur and other products and an income tax rate of 50% on all other activities, in accordance with the Saudi Arabian Income Tax Law of 2004 and its amendments. Income tax expense is primarily based on income arising in Saudi Arabia.

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
Income before income taxes .....	<b>180,706</b>	204,456	<b>346,834</b>	379,599
Income taxes at the Kingdom’s statutory tax rates .....	<b>87,924</b>	98,671	<b>169,153</b>	185,002
Tax effect of:				
Impact of new income tax rates on net deferred tax assets .....	—	(386)	—	(3,885)
Impact of change from zakat to income tax on investments in shares of resident capital companies .....	—	—	—	1,287
Income not subject to tax at statutory rates and other ...	<b>197</b>	(717)	<b>1,810</b>	(1,625)
	<b><u>88,121</u></b>	<u>97,568</u>	<b><u>170,963</u></b>	<u>180,779</u>



**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**(b) Income tax expense**

	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
Current income tax—Kingdom .....	<b>84,855</b>	92,233	<b>164,397</b>	173,918
Current income tax—Foreign .....	<b>32</b>	136	<b>176</b>	458
Deferred income tax—Kingdom:				
Impact of change in income tax rates .....	—	(386)	—	(3,885)
Charge for the period .....	<b>3,542</b>	6,909	<b>5,661</b>	10,363
Deferred income tax—Foreign .....	<b>(308)</b>	(1,324)	<b>729</b>	(75)
	<b>88,121</b>	97,568	<b>170,963</b>	180,779

**(c) Income tax obligation to the Saudi Arabian Government (the “Government”)**

	2019	2018
<b>January 1</b> .....	<b>69,575</b>	57,679
Provided during the period .....	<b>164,397</b>	173,918
Payments during the period (Note 15) .....	<b>(81,398)</b>	(80,099)
Settlements of due from the Government .....	<b>(81,609)</b>	(72,693)
Other settlements .....	<b>(1,791)</b>	(2,591)
<b>June 30</b> .....	<b>69,174</b>	76,214

**9. Other reserves**

	Currency translation differences	Investments in securities at FVOCI	Post- employment benefit obligations	Cash flow hedges and other	Share of other comprehensive income (loss) of joint ventures and associates		Total
					Post- employment benefit obligations and other	Foreign currency translation gains	
<b>January 1, 2019</b> .....	129	2,919	—	(74)	4	198	3,176
Current period change .....	(784)	699	—	(482)	(468)	4	(1,031)
Remeasurement loss .....	—	—	(9,234)	—	—	—	(9,234)
Transfer to retained earnings .....	—	—	4,668	—	—	—	4,668
Tax effect .....	—	(495)	4,566	—	—	—	4,071
Less: amounts related to non-controlling interests .....	303	—	—	6	—	—	309
<b>June 30, 2019</b> .....	<b>(352)</b>	<b>3,123</b>	—	<b>(550)</b>	<b>(464)</b>	<b>202</b>	<b>1,959</b>

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**10. Borrowings**

	June 30, 2019	December 31, 2018
<b>Non-current:</b>		
Borrowings .....	24,086	25,934
Debentures .....	61,331	17,014
Sukuk (Shari'a compliant) .....	12,915	12,821
Lease liabilities (Note 2) .....	32,882	12,329
Other <sup>(1)</sup> .....	3,258	3,231
	<b>134,472</b>	<b>71,329</b>
<b>Current:</b>		
Short-term bank financing .....	26,375	23,174
Borrowings .....	5,160	5,906
Sukuk (Shari'a compliant) .....	180	180
Lease liabilities (Note 2) .....	6,692	729
	<b>38,407</b>	<b>29,989</b>

(1) Other borrowings are comprised of loans from non-financial institutions under commercial terms.

On April 16, 2019, the Company issued a series of USD unsecured notes aggregating \$12,000 (SAR 45,000) and consisting of three-year maturities for \$1,000 (SAR 3,750) with a coupon rate of 2.75%, five-year maturities for \$2,000 (SAR 7,500) with a coupon rate of 2.875%, ten-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 3.5%, twenty-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 4.25%, and thirty-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 4.375%. The notes are issued in accordance with Rule 144A/Reg S offering requirements under the U.S. Securities Act of 1933, as amended. Interest is payable semi-annually on April 16 and October 16. The notes are listed on the London Stock Exchange's Regulated Market and the proceeds are for general corporate purposes. At initial recognition, the Company recorded an amount of SAR 44,460 for the issuance proceeds, net of discounts and estimated transaction costs. Discounts and transaction costs are amortized using the effective interest method and are reflected as finance costs in the Condensed Consolidated Statement of Income.

**11. Revenue**

	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
Revenue from contracts with customers .....	282,629	296,718	545,937	553,441
Movement between provisional and final prices .....	650	2,217	3,357	2,509
Other revenue .....	681	1,082	1,426	1,920
	<b>283,960</b>	<b>300,017</b>	<b>550,720</b>	<b>557,870</b>

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 10 to 90 days from the invoice date depending on specific terms of the contract.

Transaction prices are not adjusted for the time value of money as Saudi Aramco does not expect to have any contracts where the period between the transfer of product to the customer and payment by the customer exceeds one year.

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**Disaggregation of revenue from contracts with customers**

Saudi Aramco's revenue from contracts with customers according to product type and source is as follows:

	2 <sup>nd</sup> quarter 2019			
	Upstream	Downstream	Corporate	Total
Crude oil . . . . .	165,759	6,369	—	172,128
Refined and chemical products . . . . .	—	93,370	—	93,370
Natural gas and NGLs . . . . .	16,118	1,013	—	17,131
<b>Revenue from contracts with customers . . . . .</b>	<b>181,877</b>	<b>100,752</b>	<b>—</b>	<b>282,629</b>
Movement between provisional and final prices . . . . .	594	56	—	650
Other revenue . . . . .	55	339	287	681
<b>External revenue . . . . .</b>	<b>182,526</b>	<b>101,147</b>	<b>287</b>	<b>283,960</b>
	2 <sup>nd</sup> quarter 2018			
	Upstream	Downstream	Corporate	Total
Crude oil . . . . .	177,796	4,114	—	181,910
Refined and chemical products . . . . .	—	96,251	—	96,251
Natural gas and NGLs . . . . .	16,569	1,988	—	18,557
<b>Revenue from contracts with customers . . . . .</b>	<b>194,365</b>	<b>102,353</b>	<b>—</b>	<b>296,718</b>
Movement between provisional and final prices . . . . .	2,154	63	—	2,217
Other revenue . . . . .	302	500	280	1,082
<b>External revenue . . . . .</b>	<b>196,821</b>	<b>102,916</b>	<b>280</b>	<b>300,017</b>
	Six months 2019			
	Upstream	Downstream	Corporate	Total
Crude oil . . . . .	322,585	9,069	—	331,654
Refined and chemical products . . . . .	—	182,632	—	182,632
Natural gas and NGLs . . . . .	30,548	1,103	—	31,651
<b>Revenue from contracts with customers . . . . .</b>	<b>353,133</b>	<b>192,804</b>	<b>—</b>	<b>545,937</b>
Movement between provisional and final prices . . . . .	3,176	181	—	3,357
Other revenue . . . . .	219	670	537	1,426
<b>External revenue . . . . .</b>	<b>356,528</b>	<b>193,655</b>	<b>537</b>	<b>550,720</b>
	Six months 2018			
	Upstream	Downstream	Corporate	Total
Crude oil . . . . .	331,042	6,492	—	337,534
Refined and chemical products . . . . .	—	183,277	—	183,277
Natural gas and NGLs . . . . .	30,642	1,988	—	32,630
<b>Revenue from contracts with customers . . . . .</b>	<b>361,684</b>	<b>191,757</b>	<b>—</b>	<b>553,441</b>
Movement between provisional and final prices . . . . .	2,426	83	—	2,509
Other revenue . . . . .	524	848	548	1,920
<b>External revenue . . . . .</b>	<b>364,634</b>	<b>192,688</b>	<b>548</b>	<b>557,870</b>

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

	<u>2<sup>nd</sup> quarter 2019</u>	<u>2<sup>nd</sup> quarter 2018</u>	<u>Six months 2019</u>	<u>Six months 2018</u>
Crude oil .....	<b>748</b>	602	<b>1,137</b>	1,078
Refined and chemical products .....	<b>14,003</b>	14,307	<b>26,969</b>	27,736
Natural gas and NGLs .....	<b>3,962</b>	4,282	<b>7,422</b>	7,856
	<b><u>18,713</u></b>	<u>19,191</u>	<b><u>35,528</u></b>	<u>36,670</u>

**12. Non-cash transactions in the Condensed Consolidated Statement of Cash Flows**

Investing activities for the three and the six-month periods ended June 30, 2019 include additions to right-of-use assets of SAR 1,913 and SAR 3,957 (2018: nil and nil), respectively, subordinated shareholder loans and trade receivables with a joint venture that were converted to equity of SAR 731 and SAR 1,829 (2018: SAR 487 and SAR 975), respectively, and asset retirement provisions of SAR 112 and SAR 176 (2018: SAR 20 and SAR 162), respectively.

**13. Commitments**

**(a) Capital commitments**

Capital expenditures contracted for but not yet incurred are SAR 101,201 and SAR 90,034 at June 30, 2019 and December 31, 2018, respectively.

**(b) Sadara Chemical Company (“Sadara”)**

In May 2019, Saudi Aramco committed to increase the total financing facility provided to Sadara from SAR 25,071 to SAR 32,035. As of June 30, 2019, SAR 26,656 (December 31, 2018: SAR 25,071) has been drawn down.

**14. Contingencies**

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

**15. Payments to the Government**

	<u>2<sup>nd</sup> quarter 2019</u>	<u>2<sup>nd</sup> quarter 2018</u>	<u>Six months 2019</u>	<u>Six months 2018</u>
Income taxes (Note 8(c)) .....	<b>37,699</b>	45,043	<b>81,398</b>	80,099
Royalties .....	<b>48,893</b>	53,771	<b>88,294</b>	98,254
Dividends .....	<b>87,713</b>	48,750	<b>173,963</b>	120,000

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

**16. Related party transactions**

**(a) Transactions**

	2 <sup>nd</sup> quarter 2019	2 <sup>nd</sup> quarter 2018	Six months 2019	Six months 2018
<b>Joint ventures:</b>				
Revenue from sales	855	1,350	1,159	2,514
Other revenue	3	8	11	15
Interest income	—	19	—	30
Service expenses	3	8	11	15
<b>Associates:</b>				
Revenue from sales	9,622	10,429	18,386	19,894
Other revenue	26	49	56	128
Interest income	33	19	71	53
Purchases	8,887	10,616	16,211	19,095
Service expenses	30	41	56	94
<b>Government and semi-Government agencies:</b>				
Revenue from sales	12,577	7,289	23,415	20,030
Other income related to sales	35,498	41,259	63,836	70,916
Other revenue	105	169	353	349
Purchases	851	840	1,519	1,661
Service expenses	105	98	188	150

**(b) Balances**

	June 30, 2019	December 31, 2018
<b>Joint ventures:</b>		
Other assets and receivables	855	4
Trade receivables	304	176
<b>Associates:</b>		
Other assets and receivables	3,293	3,296
Trade receivables	11,409	10,388
Trade and other payables	4,845	4,492
<b>Government and semi-Government agencies:</b>		
Trade receivables	8,561	8,764
Due from the Government	46,715	48,140
Trade and other payables	2,220	2,269

**(c) Compensation of key management personnel**

Compensation policies for and composition of key management personnel remain consistent with 2018.

**17. Investments in affiliates**

**(a) Investments in subsidiaries**

**(i) Saudi Basic Industries Corporation (“SABIC”)**

On March 27, 2019, the Company announced that it had entered into a Share Purchase Agreement with the Public Investment Fund (“PIF”) to acquire the PIF’s 70% equity interest in SABIC for total consideration of SAR 259,125 (\$69,100), which is equivalent to SAR 123.39 per share. Closing of the acquisition is subject to customary closing conditions and is currently expected to

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**  
*All amounts in millions unless otherwise stated*

occur in 2020. SABIC is headquartered in Riyadh, Saudi Arabia and operates in over 50 countries with approximately 34,000 employees. SABIC produces ethylene, ethylene glycol, methanol, methyl tertiary butyl ether (“MTBE”), polyethylene and engineering plastics and their derivatives, among other products. The Company believes that purchasing a majority interest in SABIC will advance its strategy to increase the proportion of petrochemicals production in its downstream portfolio, capture additional value and support the Company’s downstream growth ambitions. The acquisition will result in the Company obtaining control of SABIC. The purchase price for the acquisition will be paid on the closing date in the form of a cash payment equal to 50% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 50% of the purchase price. The Company will also pay a loan charge to PIF on the closing date in the form of a cash payment equal to SAR 1,875 (\$500). The seller loan with an additional loan charge of SAR 1,875 (\$500) will become due and payable in equal installments on or before December 31, 2020 and December 31, 2021. The amounts due to PIF will be paid from internal cash generation and other sources.

**(ii) Saudi Aramco Shell Refinery Company (“SASREF”)**

On April 18, 2019, the Company entered into a Share Purchase Agreement to acquire a 50% equity interest in SASREF from Shell Saudi Arabia (Refining) Limited (Shell). The total consideration for this acquisition is approximately SAR 2,366 to be paid in cash. As a result of this transaction, Saudi Aramco will become the sole shareholder of SASREF. SASREF owns and operates a 305,000 barrel per day refinery that includes a hydrocracker unit, a visbreaker unit, and a thermal gas-oil unit. Located in Jubail, the refinery began commercial operations in 1986 and currently produces naphtha, high-sulfur fuel oil, jet fuel and diesel fuel. The transaction is subject to customary regulatory filings and is expected to close before the end of 2019.

**(b) Tas’helat Marketing Company**

On June 17, 2019, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., each acquired a 50% interest in the Tas’helat Marketing Company for a total of SAR 770. Tas’helat operates a network of 270 retail gasoline service stations under the “Sahel” brand name and 73 convenience stores across the Kingdom. The two partners, over the next several years, will invest SAR 2,800 in upgrading the existing retail facilities and rebranding an equal number of the retail gasoline service stations with the two partners’ brand names.

**(c) Hyundai Oilbank**

On April 15, 2019, Aramco Overseas Company B.V. (“AOC”), a wholly owned subsidiary of the Company, and Hyundai Heavy Industries Holdings (“HHIH”) executed a Share Purchase Agreement for AOC to purchase a 17% equity interest in Hyundai Oilbank, a subsidiary of HHIH for an estimated SAR 4,688 with an option to acquire an additional 2.9%. The transaction, subject to receiving regulatory approvals, is expected to close in the fourth quarter of 2019. Hyundai Oilbank is a private oil refining company established in 1964. The Daesan Complex, where Hyundai Oilbank’s major facilities are located, is a fully integrated refining plant with a processing capacity of 650,000 barrels per day. The business portfolio of Hyundai Oilbank and its subsidiaries includes oil refining, base oil, petrochemicals, and a network of gas stations. AOC’s investment in Hyundai Oilbank will support Saudi Aramco’s crude oil placement strategy by providing a dedicated outlet for Arabian crude oil to South Korea.

**(d) Investment in engine manufacturing**

On May 19, 2019, Saudi Aramco Development Company (“SADCO”), a wholly owned subsidiary of the Company, Hyundai Heavy Industries (“HHI”) and the Saudi Arabian Industrial Investments

**Saudi Arabian Oil Company | second quarter and six months 2019**  
**Condensed Consolidated Interim Financial Report**

*All amounts in millions unless otherwise stated*

Company (“Dussur”) concluded an agreement to establish an affiliate to form an engine manufacturing and aftersales facility in the Kingdom. SADC0 will own 55% of the affiliate while HHI and Dussur will own 30% and 15%, respectively. SADC0 is a 25% shareholder of Dussur. Total investment in the affiliate will be up to SAR 646 of which SADC0’s share will be up to SAR 355. Additionally, under the agreement HHI will have the option to sell up to 20% of its 30% investment in the affiliate for up to SAR 129, representing HHI’s cost, back to SADC0. The option expires on November 19, 2020. Formation of the affiliate, subject to certain regulatory approvals, is expected to conclude in late 2019 or early 2020.

**18. Events after the reporting period**

**Cash dividend**

The condensed consolidated interim financial report does not reflect a dividend to the Government of SAR 50,213, which was approved in August 2019. This dividend will be deducted from unappropriated retained earnings in the year ending December 31, 2019.



**SAUDI BASIC INDUSTRIES CORPORATION  
(SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018 AND  
INDEPENDENT AUDITOR'S REPORT**





**Ernst & Young & Co. (Certified Public Accountants)**  
**General Partnership**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Saudi Basic Industries Corporation (SABIC)  
(A Saudi Arabian Joint Stock Company)

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Saudi Basic Industries Corporation (SABIC) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in KSA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

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

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

## **Key audit matter**

### ***Impairment of non-financial assets***

In relation to impairment of property, plant and equipment, the carrying values of the property, plant and equipment are reviewed annually by management for potential indicators of impairment. For such assets where impairment indicators exist, management performs detailed impairment reviews, taking into account, inter alia, the impact of revenue assumptions, technical factors, usage and economic condition which may affect the expected remaining useful lives and carrying value of the assets.

In relation to impairment of goodwill, management performs an annual impairment test on the recoverability of the goodwill. Accordingly, the management assesses the recoverable amount of each cash generating unit (CGU) or group of CGUs to which the goodwill relates, to determine if an impairment is required or not. In this regard, management needs to apply considerable judgement in allocating the goodwill to the appropriate business units as well as in assessing the future performance and prospects of each CGU and the discount rates to apply.

#### ***a. Assessing impairment of property, plant and equipment*** ***How our audit addressed the key audit matter***

As at 31 December 2018, the Group's consolidated statement of financial position includes property, plant and equipment amounting to SR 164 billion. The assessment of the recoverable value of these assets, incorporates significant judgement in respect of factors such as future production levels, commodity prices, operating/capital costs and economic assumptions such as discount rates.

Based on the assessment, the management concluded that no material impairment of property, plant and equipment was required.

We identified the impairment of property, plant and equipment as a key audit matter as the assessment involves a significant degree of management judgement in determining the key assumptions such as expected revenue levels and technical factors.

Refer to consolidated financial statements note 6 for the significant accounting policy relating to impairment of non-current assets, note 3.1.1 for the significant accounting estimates, assumptions and judgements relating to impairment of non-financial assets and note 7 for property, plant and equipment related disclosures.

#### ***b. Impairment assessment of Goodwill***

As of 31 December 2018, the Group's goodwill balance was SR 8.7 billion. Based on the annual goodwill impairment assessment, including sensitivity tests, the management concluded that no material impairment of goodwill was required.

We have considered this to be a key audit matter in light of the amount of judgment involved and estimation required to assess the recoverable amount of CGUs.

We performed the following procedures, among others:

- Evaluating the management's assumptions and estimates to determine the recoverable value of its property, plant and equipment, including those relating to production, cost, capital expenditure and discount rates. This included using specialists to compare these assumptions against external benchmarks and evaluating management's assumptions based on our knowledge of the Group and its industry;
- Validating the mathematical accuracy of cash flow models and agreeing relevant data to the latest production plans and approved budgets; and
- Assessing the adequacy of the Group's disclosures in respect of asset carrying values and impairment losses.

#### ***How our audit addressed the key audit matter***

We performed the following procedures in respect of the impairment assessment of goodwill:

- Evaluated the methodology used by management to estimate the recoverable amount of each CGU;
- Evaluated the assumptions and methodologies used in the annual impairment test prepared by the management;

### **Key audit matter**

Refer to consolidated financial statements note 6 for the significant accounting policy relating to impairment of non-current assets, note 3.1.1 for the significant accounting estimates, assumptions and judgements relating to impairment of non-financial assets and note 8 for intangible assets related disclosures.

- Evaluated management’s critical assumptions in particular, the projected revenue growth, margin developments, discount rates and terminal growth rates. This included using specialists in assessing management’s assumptions based on our knowledge of the Group and its industry;
- Verified whether the CGU definition is in line with internal reporting and IAS 36 criteria and verified whether carrying values were appropriately allocated to the different CGUs;
- Performed an assessment of the mathematical accuracy of the calculations and a reconciliation to the underlying plan as approved by the management; and
- We also focused on the adequacy of the Group’s disclosures in the consolidated financial statement concerning those key assumptions to which the outcome of the impairment test is most sensitive.

### **Other information included in the Group’s 2018 Annual Report**

Other information consists of the information included in the Group’s 2018 annual report, other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information in its annual report. The Group’s 2018 annual report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group’s 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies’ Law and SABIC’s By-law, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with ISAs that are endorsed in KSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

for Ernst & Young



Rashid S. Al Rashoud  
Certified Public Accountant  
License No. 366  
Riyadh: 5 Rajab 1440H  
12 March 2019



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(All amounts in Saudi Riyals '000 unless otherwise stated)

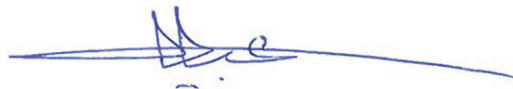
	Notes	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment .....	7	163,819,684	167,355,911
Intangible assets .....	8	12,947,211	13,542,397
Investments in associates and joint ventures .....	9	25,780,550	14,304,140
Investments in debt instruments .....	10	2,493,880	—
Held-to-maturity investments .....	10	—	3,055,161
Investments in equity instruments .....	11	1,090,109	—
Available-for-sale financial assets .....	11	—	696,243
Deferred tax assets .....	31.2	865,156	673,983
Other non-current assets .....	12	5,126,456	4,219,500
<b>Total non-current assets</b> .....		<b>212,123,046</b>	<b>203,847,335</b>
<b>Current assets</b>			
Inventories .....	14	28,244,803	26,062,995
Trade receivables .....	15	21,821,849	22,609,432
Prepayments and other current assets .....	16	5,114,857	5,701,316
Short-term investments .....	17	9,815,499	4,351,072
Cash and bank balances .....	18	42,590,820	59,038,656
<b>Total current assets</b> .....		<b>107,587,828</b>	<b>117,763,471</b>
<b>Total assets</b> .....		<b>319,710,874</b>	<b>321,610,806</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital .....	19	30,000,000	30,000,000
Statutory reserve .....	20	15,000,000	15,000,000
General reserve .....	20	110,889,032	110,889,032
Other reserves .....	20	(1,359,184)	(2,249,663)
Retained earnings .....		18,554,532	10,282,264
<b>Equity attributable to equity holders of the Parent</b> .....		<b>173,084,380</b>	<b>163,921,633</b>
Non-controlling interests .....	21	48,352,095	46,216,859
<b>Total equity</b> .....		<b>221,436,475</b>	<b>210,138,492</b>
<b>Non-current liabilities</b>			
Long-term debt .....	22	42,345,396	41,624,732
Employee benefits .....	23	15,000,025	17,635,036
Deferred tax liabilities .....	31.2	1,664,138	1,752,443
Other non-current liabilities .....		2,156,437	2,160,697
<b>Total non-current liabilities</b> .....		<b>61,165,996</b>	<b>63,172,908</b>
<b>Current liabilities</b>			
Current portion of long-term debt .....	22	3,750,256	15,373,456
Short-term borrowings .....	22	1,167,589	1,065,000
Trade payables .....	24	14,969,357	18,061,464
Accruals and other current liabilities .....	25	13,016,884	10,124,246
Zakat and income tax payable .....	31	4,204,317	3,675,240
<b>Total current liabilities</b> .....		<b>37,108,403</b>	<b>48,299,406</b>
<b>Total liabilities</b> .....		<b>98,274,399</b>	<b>111,472,314</b>
<b>Total equity and liabilities</b> .....		<b>319,710,874</b>	<b>321,610,806</b>



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**

(All amounts in Saudi Riyals '000 unless otherwise stated)

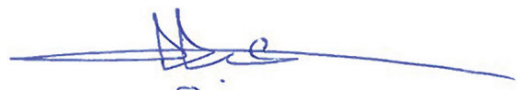
	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue .....	27	<b>169,128,339</b>	149,765,968
Cost of sales .....	28.1	<b>(111,520,471)</b>	(99,858,243)
<b>Gross profit</b> .....		<b>57,607,868</b>	49,907,725
General and administrative expenses .....	28.2	<b>(10,944,907)</b>	(10,569,801)
Selling and distribution expenses .....	28.3	<b>(10,399,937)</b>	(10,339,537)
<b>Income from operations</b> .....		<b>36,263,024</b>	28,998,387
Share of results of associates and joint ventures .....	9.1	<b>1,049,850</b>	1,419,680
Finance income .....	33	<b>1,422,720</b>	1,247,057
Finance cost .....	29 & 33	<b>(2,646,115)</b>	(2,329,716)
		<b>(1,223,395)</b>	(1,082,659)
Other (expenses) income, net .....	30	<b>(406,411)</b>	289,337
<b>Income before zakat and income tax</b> .....		<b>35,683,068</b>	29,624,745
Zakat expense .....	31.1	<b>(2,600,000)</b>	(2,600,000)
Income tax expense .....	31.2	<b>(1,197,661)</b>	(1,540,000)
<b>Net income for the year</b> .....		<b>31,885,407</b>	25,484,745
<b>Attributable to:</b>			
Equity holders of the Parent .....		<b>21,520,678</b>	18,430,236
Non-controlling interests .....		<b>10,364,729</b>	7,054,509
		<b>31,885,407</b>	25,484,745
<b>Basic and diluted earnings per share (Saudi Riyals)</b>			
Earnings per share from income from operations .....	32	<b>12.09</b>	9.67
Earnings per share from net income attributable to equity holders of the Parent .....	32	<b>7.17</b>	6.14



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(All amounts in Saudi Riyals '000 unless otherwise stated)


	Notes	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Net income for the year .....		<b>31,885,407</b>	25,484,745
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to the consolidated statement of income (net of tax):</i>			
—Re-measurement gain on defined benefit plans .....	23	<b>2,147,893</b>	274,582
—Share of other comprehensive income of associates and joint ventures .....	9 & 20	<b>1,596</b>	—
—Net change on revaluation of investments in equity instruments at FVOCI .....	20	<b>4,880</b>	—
—Deferred tax expense .....	31.2	<b>(5,204)</b>	(61,349)
		<b>2,149,165</b>	213,233
<i>Items that will be reclassified to the consolidated statement of income (net of tax):</i>			
—Exchange difference on translation of foreign operations ...	20	<b>(1,301,215)</b>	3,021,606
—Share of other comprehensive income of associates and joint ventures .....	9 & 20	<b>52,181</b>	(184,923)
—Net change on revaluation of available-for-sale financial assets .....	20	<b>—</b>	(10,023)
		<b>(1,249,034)</b>	2,826,660
<b>Movement of other comprehensive income .....</b>		<b>900,131</b>	3,039,893
<b>Total comprehensive income for the year .....</b>		<b>32,785,538</b>	28,524,638
<b>Attributable to:</b>			
Equity holders of the Parent .....		<b>22,022,132</b>	21,488,556
Non-controlling interests .....		<b>10,763,406</b>	7,036,082
		<b>32,785,538</b>	28,524,638



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(All amounts in Saudi Riyals '000 unless otherwise stated)

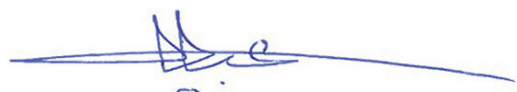
	Attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings			
					(Note 20)			
Balance as at 31 December 2017	30,000,000	15,000,000	110,889,032	(2,249,663)	10,282,264	163,921,633	46,216,859	210,138,492
Adoption of IFRS 9 and IFRS 15 (Note 4)	—	—	—	389,025	(48,410)	340,615	1,539	342,154
Balance as at 1 January 2018	30,000,000	15,000,000	110,889,032	(1,860,638)	10,233,854	164,262,248	46,218,398	210,480,646
Net income for the year	—	—	—	—	<b>21,520,678</b>	<b>21,520,678</b>	<b>10,364,729</b>	<b>31,885,407</b>
Other comprehensive income	—	—	—	<b>501,454</b>	—	<b>501,454</b>	<b>398,677</b>	<b>900,131</b>
Total comprehensive income	—	—	—	<b>501,454</b>	<b>21,520,678</b>	<b>22,022,132</b>	<b>10,763,406</b>	<b>32,785,538</b>
Dividends (Note 39) and others	—	—	—	—	<b>(13,200,000)</b>	<b>(13,200,000)</b>	<b>(8,629,709)</b>	<b>(21,829,709)</b>
Balance as at 31 December 2018	<b>30,000,000</b>	<b>15,000,000</b>	<b>110,889,032</b>	<b>(1,359,184)</b>	<b>18,554,532</b>	<b>173,084,380</b>	<b>48,352,095</b>	<b>221,436,475</b>
Balance as at 1 January 2017	30,000,000	15,000,000	110,889,032	(5,307,983)	6,953,960	157,535,009	44,544,030	202,079,039
Net income for the year	—	—	—	—	18,430,236	18,430,236	7,054,509	25,484,745
Other comprehensive income	—	—	—	3,058,320	—	3,058,320	(18,427)	3,039,893
Total comprehensive income	—	—	—	3,058,320	18,430,236	21,488,556	7,036,082	28,524,638
Dividends and others	—	—	—	—	(12,000,000)	(12,000,000)	(5,390,185)	(17,390,185)
Acquisition of non-controlling interests (Note 21.1)	—	—	—	—	(739,795)	(739,795)	(2,335,205)	(3,075,000)
Absorption of loss on behalf of non-controlling interests (Note 21.2)	—	—	—	—	(2,362,137)	(2,362,137)	2,362,137	—
Balance as at 31 December 2017	<u>30,000,000</u>	<u>15,000,000</u>	<u>110,889,032</u>	<u>(2,249,663)</u>	<u>10,282,264</u>	<u>163,921,633</u>	<u>46,216,859</u>	<u>210,138,492</u>



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(All amounts in Saudi Riyals '000 unless otherwise stated)

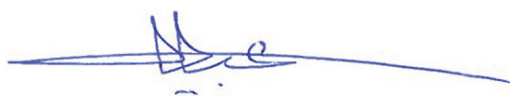
	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
<b>Operating activities:</b>			
Income before zakat and income tax		35,683,068	29,624,745
<i>Adjustment to reconcile income before zakat and income tax to net cash from operating activities:</i>			
—Depreciation of plant and equipment	7	14,472,437	13,928,217
—Amortisation of intangible assets	8	663,644	917,567
—Impairment and write downs of plant and equipment and intangible assets	7 & 8	365,484	1,565,189
—Provision for slow moving and obsolete inventories	14	(60,228)	276,248
—Provision for doubtful debts, net	15	3,320	116,656
—Share of results of associates and joint ventures	9	(1,049,850)	(1,419,680)
—Fair value adjustment to derivatives, net		(39,206)	3,728
—Loss on sale/disposals of property, plant and equipment	30	179,700	88,512
—Finance costs	29	2,646,115	2,329,716
<i>Changes in operating assets and liabilities:</i>			
Decrease (increase) in other non-current assets		774,757	(80,491)
Increase in inventories		(2,121,581)	(3,737,745)
Decrease (increase) in trade receivables		744,653	(2,872,849)
Decrease (increase) in prepayments and other current assets		881,779	(1,049,311)
Increase in other non-current liabilities		185,249	766,393
(Decrease) increase in trade payables		(3,092,107)	1,692,630
(Decrease) increase in employee benefits		(1,048,193)	878,512
Increase in accruals and other current liabilities		1,551,203	610,247
<b>Cash from operations</b>		<b>50,740,244</b>	<b>43,638,284</b>
Finance cost paid		(2,002,413)	(1,738,073)
Zakat and income tax paid	31	(4,007,987)	(3,222,906)
<b>Net cash from operating activities</b>		<b>44,729,844</b>	<b>38,677,305</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	7	(14,165,177)	(11,097,382)
Short-term investments, net		(5,279,537)	15,754,305
Purchase of held-to-maturity investments		—	(100,000)
Proceeds on the maturity of investments in debt instruments		402,040	521,420
Purchase of intangible assets	8	(71,058)	(373,722)
Proceeds from sale/disposals of property, plant and equipment		48,605	53,398
Purchase of investments in equity instruments		(46,054)	(24,169)
Proceeds from sale of investments in equity instruments		23	27,368
Investments in associates and joint ventures	9	(10,954,760)	(352,995)
Distributions received from associates and joint ventures		462,361	364,106
<b>Net cash (used in) from investing activities</b>		<b>(29,603,557)</b>	<b>4,772,329</b>
<b>Financing activities:</b>			
Proceeds from debt		26,787,021	3,428,345
Repayment of debt		(37,480,836)	(9,040,786)
Finance lease payments		(187,113)	(53,676)
Dividends paid to shareholders		(12,059,538)	(11,592,416)
Dividends paid to non-controlling interests		(8,736,246)	(5,390,185)
Acquisition of non-controlling interests		—	(3,075,000)
<b>Net cash used in financing activities</b>	18	<b>(31,676,712)</b>	<b>(25,723,718)</b>
Net (decrease) increase in cash and cash equivalents		(6,550,425)	17,725,916
Cash and cash equivalents at the beginning of the year	18	57,973,656	40,247,740
<b>Cash and cash equivalents at the end of the year</b>	18	<b>41,423,231</b>	<b>57,973,656</b>



EVP Corporate Finance



Vice Chairman & CEO



Chairman, Board of Directors

The notes on page 15 to 108 form an integral part of these consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**1 Corporate information**

Saudi Basic Industries Corporation (“SABIC” or “the Parent”) is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia (“KSA”) and 30% by the private sector.

The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

SABIC and its subsidiaries (collectively the “Group”) are engaged in manufacturing, marketing and distribution of chemicals, polymers, high performance plastics, agri-nutrients and metal products in global markets.

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 12 March 2019.

**2 Basis of preparation and accounting policies**

**2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations as issued by the International Accounting Standards Board (“IASB”) as endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Certain prior period’s figures have been reclassified to conform to the current period’s presentation (Note 38).

The consolidated financial statements are prepared under the historical cost convention, except for financial instruments, which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services at the time of the transaction.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless whether that price is directly observable or estimated using another technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 ‘Leases’, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 ‘Inventories’ or value in use in IAS 36 ‘Impairment of Assets’.

The Group has categorized its financial assets and liabilities into a three-level fair value hierarchy, based on the degree to which the lowest level inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement as a whole, which are described as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**2.2 Basis of consolidation**

The consolidated financial statements comprise the financial statements of SABIC and entities controlled by SABIC, except for joint operations which are consolidated based on the Group's relative share in the arrangement.

Consolidation of a subsidiary begins when SABIC obtains control over the subsidiary and ceases when SABIC loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the period are included in the consolidated financial statements from the date SABIC gains control until the date SABIC ceases to control the subsidiary. Refer Note 3.2.2 for judgements applied by SABIC to assess control. SABIC re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control.

Net income or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the Parent of the Group 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 the Group's accounting policies. All intra-group asset and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If SABIC loses control over a subsidiary, it de-recognises the related assets (including goodwill, if applicable), liabilities, non-controlling interests and other components of equity, while any resulting gain or loss is recognized in the consolidated statement of income.

**2.3 Foreign currencies**

The consolidated financial statements are presented in Saudi Riyals (SR), which is the functional currency of the Parent. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currencies' spot rates at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed, at which time, the cumulative amount is reclassified to consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Group's companies

On consolidation, the assets and liabilities of foreign operations are translated into SR at the rate of exchange prevailing at the reporting date and their statements of income are translated at exchange rates prevailing at the transactions dates. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

### **3 Significant accounting estimates, assumptions and judgements**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions at reporting date that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustments in the future to the carrying amount of the asset or liability affected.

The estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, if the changed estimates affect both current and future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

- Capital management, financial instrument risk management and policies (Note 36)
- Sensitivity analysis disclosures (Notes 23 and 36)

#### **3.1 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material differences in the carrying amounts of assets and liabilities within the next financial period, are disclosed below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

##### **3.1.1 Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or Cash Generating Unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing the asset. The value in use is based on a Discounted Cash Flow ("DCF") model. The cash flows are derived from the budget and business plan for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future net cash-inflows and the growth rate used for extrapolation purposes. The key

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

assumptions used to determine the recoverable amount for the different CGUs are disclosed in Notes 7 and 8.

**3.1.2 Purchase price allocation interest in Clariant AG (“Clariant”)**

Upon acquiring control or significant influence over a company, the Group has to follow the policy for business combinations. In the specific case of acquiring significant influence over Clariant, management had to allocate its consideration paid to the fair value of assets and liabilities at the date of acquisition. As Clariant is stock listed, the Group had to rely on only publically available information to assess the fair value of the assets and liabilities at that time. The fair values of non-current assets and working capital were derived from similar transactions in the petrochemical industry, including estimating the value of customer lists, licenses and useful life of intangible assets and plants and equipment.

**3.1.3 Measurement of financial instruments (Notes 10, 11, 13 & 15)**

By adopting IFRS 9, the Group is required to make judgements about:

- The regional and business related risk profiles of the Group’s customers to assess the Expected Credit Losses (“ECL”) on trade receivables.
- The basis to determine the fair value of its investments in equity instruments, in reference to similar kind of investments being sold in the market. The selection of the investments to determine the basis requires judgement by management to recognise investments in equity instruments at Fair Value through Other Comprehensive Income (“FVOCI”). For fair value determination, these investments qualify as level 3 items (Note 2.1).

**3.1.4 Provisions**

By their nature, the measurement of provisions depend upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. The Group’s estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for remediation. Provisions for litigation are based on an estimate of costs, taking into account legal advice and other information available.

**3.1.5 Defined employee benefit plans (Note 23)**

Post-employment defined benefits plans, end-of-service benefits plans, indemnity payments and other long-term employee related liabilities represent obligations that will be settled in the future and require actuarial valuations to determine these obligations. The Group is required to make assumptions regarding variables such as discount rates, rate of salary increase, longevity, employee turnover and future healthcare costs, if applicable. Changes in key assumptions can have a significant impact on the projected benefit obligations and employee defined benefit costs. All assumptions are reviewed each reporting date. Defined benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate or government bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the size of the bonds, quality of the corporate bonds and the identification of outliers which are excluded, if any.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**3.1.6 Accounting for income tax (Note 31.2)**

As part of the process of preparing consolidated financial statements, the Group estimates income tax in each of the jurisdictions it operates. This process involves estimating current tax expense and temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the related tax bases. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated statement of financial position. Deferred tax assets and liabilities are carried at nominal value.

The Group assesses periodically the likelihood whether deferred tax assets will be recovered from future taxable income, to the extent these deferred tax assets are recorded. Deferred tax assets are recognised for unused tax losses to the extent that it probable that the taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

**3.2 Critical judgements in applying accounting standards**

In addition to the application of the judgement in the above-mentioned estimates and assumptions, the following critical judgements have the most significant effect on the amounts recognised in the consolidated financial statements:

**3.2.1 Component parts of plant and equipment**

The Group's plant and equipment are broken down into significant components and depreciated on a straight-line basis over their economic useful lives. Judgement is required in ascertaining the significant components of a larger asset. In defining the significance of a component, the Group considers quantitative materiality of the component part as well as qualitative factors such as difference in useful life as compared to related asset.

**3.2.2 Determination of control, joint control and significant influence**

Subsidiaries are all investees over which the Group has control. Management considers that it controls an entity when the Group is exposed to or has rights to the majority of the variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return.

**3.2.2.1 Assessing control over consolidated subsidiaries**

The determination about whether the Group has power depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees.

In certain cases where the Group owns less than 50% of voting rights, it may still be the single largest shareholder with presence on the governing body giving it power to direct relevant activities of the investees, whereby the other shareholders individually do not

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

hold sufficient voting rights and power to overrule the Group's directions. There is no prior instance of other shareholders collaborating to exercise their votes collectively or to out-vote the Group.

Management has considered the integration of all KSA investees (where the Group has equal or less than a majority of the voting rights) within the Group structure and located in the industrial cities in KSA, the ability of the Group to impact the majority of the variable returns of the investees through the provision of various key services to such investees, the relationship of the Group with other entities which may impact returns of investees, appointment of certain key management personnel and various other such factors.

Based on above considerations, the Group believes:

- There is a pattern of past and existing practice of the Group's involvement in the relevant activities of these investees resulting in an impact on their returns and also indicating a more than passive interest of the Group in such investees; and
- The Group has created an ecosystem in which the set-up and function of these investees and their inter-relationship with the Group leads towards a judgement of 'control'.

Hence, the Group has consolidated those KSA investees, which meet the above criteria as part of the Group's consolidated financial statements.

#### **4 Changes in accounting policies**

Effective 1 January 2018, the Group has applied two new accounting standards, International Financial Reporting Standard 9 '*Financial Instruments*' ("IFRS 9") and IFRS 15 '*Revenue from Contracts with Customers*' ("IFRS 15").

##### **4.1 IFRS 9—Financial Instruments**

The Group has adopted IFRS 9 and has opted for the modified retrospective approach for the adoption without changing the comparative financial information presented. The difference between the carrying amounts of the financial assets resulting from adopting IFRS 9 are recognised in retained earnings and other reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The financial liabilities are not affected.

The following assessments have been made based on the facts and circumstances at the date of initial application:

- The determination of the business model within which a financial asset is held
- The designation and revocation of previous designated financial assets as measured at Fair Value through Income Statement ("FVIS")
- The designation of certain investments in equity instruments not held for trading as FVOCI
- The designation of debt instruments as financial assets at amortised cost



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The following table shows changes in measurement and classification of the different categories in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and the new measurement and classification categories in accordance with IFRS 9 for the Group's financial assets as per 1 January 2018:

	<u>Measurement under IAS 39</u>	<u>Measurement under IFRS 9</u>	<u>Carrying value under IAS 39</u>	<u>Carrying value under IFRS 9</u>	<u>Changes on adoption of IFRS 9</u>
<b>Financial assets:</b>					
Held-to-maturity investments <sup>(i)</sup> . . . . .					
Amortised					
cost		FVIS	375,000	388,404	13,404
Held-to-maturity investments <sup>(i)</sup> . . . . .					
Amortised					
cost		cost	3,070,481	3,070,481	—
Available-for-sale financial assets <sup>(i)</sup> . . . .	Cost	FVOCI	696,243	1,085,543	389,300
Trade receivables . . . . .	Amortised	Amortised			
	cost	cost	22,609,432	22,569,822	(39,610)
Other receivables . . . . .	Amortised	Amortised			
	cost	cost	2,001,134	2,011,288	10,154

(i) Held-to-maturity investments and available-for-sale financial assets have been classified as investments in debt instruments and investment in equity instruments respectively.

**4.2 IFRS 15—Revenue from Contracts with Customers**

The Group adopted IFRS 15 resulting in a change in the revenue recognition of contracts with customers. The Group opted for the modified retrospective approach for the adoption without changing the comparative financial information presented and has deferred revenue allocated to the logistic services.

**4.3 Comparative financial information**

The adoption of IFRS 9 and IFRS 15 has resulted in a change in the non-controlling interests, other reserves and retained earnings as follows:

	<u>Non- controlling interests</u>	<u>Other reserves</u>	<u>Retained earnings</u>
Balance as at 31 December 2017 . . . . .	46,216,859	(2,249,663)	10,282,264
<i>IFRS 9 adjustments</i>			
—Re-measurement of investments at FVOCI . . . . .	—	389,300	—
—Re-measurement of investments at FVIS . . . . .	—	—	13,404
—Recognition of provision based on ECL . . . . .	1,539	—	(30,995)
—Recognition of related currency translation and deferred taxes . . . . .	—	(275)	8,616
	1,539	389,025	(8,975)
<i>IFRS 15 adjustment</i>			
—Deferral of revenue relating to logistic services . . . . .	—	—	(39,435)
Total IFRS 9 and 15 adjustments . . . . .	1,539	389,025	(48,410)
Opening balance as at 1 January 2018 (restated) . . . . .	46,218,398	(1,860,638)	10,233,854

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**5 New IFRS issued but not yet effective**

The IFRS standards and interpretations that are issued and relevant for the Group, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are elaborated below. These standards will be adopted by the Group when they become effective.

**IFRS 16—Leases**

The IASB has issued a new standard for the recognition of leases. This standard will replace: IAS 17—'Leases' ("IAS 17"), IFRIC 4 'Whether an arrangement contains a lease', SIC 15 'Operating leases—Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 'Leases' ("IFRS 16") will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts apart from an optional exemption for certain short-term leases and low value assets.

In addition, under the new lease standard, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group will adopt IFRS 16 from its mandatory adoption date of 1 January 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives for the 2018 financial year will not be restated.

The Group has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

On adoption of IFRS 16, the Group will recognise lease liabilities and associated right-of-use assets in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities will be measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The associated rights-of-use assets will be measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group is in the process of finalizing its calculation of the final amount for the right-of-use assets and lease liability as at 1 January 2019. The impact is expected to be between 1-3% of total assets and 5-7% of total liabilities. There will be no impact on retained earnings on 1 January 2019. The impact of adopting IFRS 16 on the Group's net income for 2019 will be insignificant.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**IFRIC Interpretation 23—Uncertainty over Income Tax Treatment**

The Interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *'Income Taxes'* ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group expects no significant impact from this interpretation and will adopt from its effective date.

**Amendments to IAS 19—Plan Amendment Curtailment or Settlement**

The Amendments to IAS 19 *'Employee Benefits'* specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

The Amendments require a company to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective on or after 1 January 2019. The Group expects no significant impact from these Amendments and will adopt from its effective date.

**Amendment to IFRS 3—Business Combinations**

The Amendment narrowed and clarified the definition of a business. It also permits a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The Amendment is effective for business combinations which are entered into for annual reporting periods beginning on or after 1 January 2020. The Group will apply the Amendment from its effective date.

**6 Summary of significant accounting policies**

The significant accounting policies adopted by the Group in preparing these consolidated financial statements are applied consistently and are described below:

**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 which is measured at fair value on the acquisition date and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed in the consolidated statement of income when incurred.

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 '*Financial Instruments*', is measured at fair value with the changes in fair value recognized in the consolidated statement of income or OCI.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed. If the reassessment still results in an excess the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if applicable. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to have benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

**Investments in associates and joint arrangements**

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Judgement is required, particularly where the Group owns shareholding and voting rights of generally 15% and above, the Group assessed not to have 'control' or 'joint control' over such investees.

Investments in joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

- *Joint operations*

A joint operation is an arrangement whereby the parties that have joint control on the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held assets or incurred liabilities, revenues and expenses for its joint operations.

- *Joint ventures*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Under the equity method of accounting, the investments in an associate or joint venture are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition results in the consolidated statement of income, and the Group's share of movements in OCI in the consolidated statement of comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it is liable due to constructive or legal obligations on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in the consolidated statement of income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to the consolidated statement of income.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in OCI, except for the items that will not be reclassified to the consolidated statement of comprehensive income, are reclassified to the consolidated statement of income, where appropriate.

**Current versus non-current classification**

The Group presents assets and liabilities in the consolidated statement of financial position based on current and non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is due to be settled within twelve months after the reporting period. The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Zakat and tax**

Zakat

Zakat is levied at the higher of adjusted income subject to zakat or the zakat base in accordance with the Regulations of the General Authority of Zakat and Tax (“GAZT”) in KSA. The Group computes its zakat by using the zakat base, which makes this a levy not based on income subject to zakat. The zakat provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the period of their finalisation.

Current Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

Deferred tax

Deferred tax is provided for using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

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 utilised.

**Government grants**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised in the consolidated statement of income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, it is recognised in the consolidated statement of financial position as deferred income and released to the consolidated statement of income in equal amounts over the expected useful life of the related asset. When the Group receives non-monetary grants, the asset and the grant are recorded gross at its fair value and released to the consolidated statement of income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced in intervals, the Group recognizes and depreciates them separately based on its specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Depreciation is calculated on a straight-line basis over the useful life of the asset as follows:

Buildings .....	13 to 40 years
Plant and equipment .....	4 to 50 years
Furniture, fixtures and vehicles .....	3 to 10 years

Land and assets under construction, which are not ready for their intended use, are not depreciated.

An item of property, plant and equipment and any significant part initially recognized is de-recognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is de-recognised.

The assets' residual values, useful lives and methods of depreciation are periodically reviewed, and adjusted prospectively in case of a significant change in the assets technological capabilities or estimated planned use.

*Leases*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that substantially transfers all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are recognised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 finance costs in the consolidated statement of income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

*Borrowing costs*

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the costs of these assets, until such time as the asset is substantially ready for its intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted for the borrowing costs eligible for capitalization. All other borrowing costs are expensed in the period they occur.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Intangible assets**

Intangible assets are measured at cost upon initial recognition. Intangible assets acquired in a business combination are measured at 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. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indicator that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible asset.

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

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Amortization of the intangible asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortization is recorded in the consolidated statement of income. During the period of development, the asset is tested for impairment annually.

Technology and innovation expense related to product development is recorded in the consolidated statement of income in other operating expense and expense related to process improvement is recorded in cost of sales.

The amortization period for intangible assets with a finite useful life is as follows:

Licenses .....	5 to 15 years
Trademarks .....	22 years
Customer lists .....	18 years
(Un)patented technology .....	10 years
Others, including in-house developed software and technology and innovation assets .....	3 to 5 years

**Impairment of non-current assets**

The Group 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 is required, the Group estimates the assets' recoverable amount. An asset's recoverable amount is the higher of an asset's or 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 or CGU is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The Group's impairment calculation is based on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering a five-year period. A long-term growth rate is calculated and applied to project future cash flows after the budget period.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group 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. Such reversal is recognized in the consolidated statement of income.

Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU's) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future years.

#### **Financial assets**

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- financial assets measured at amortised cost; or
- financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the consolidated statement of income or through the consolidated statement of OCI.

#### Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through income statement are recognised in the consolidated statement of income, when incurred.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

#### Subsequent measurement

##### *Debt instruments*

The Group recognises three classifications to subsequently measure its debt instruments:

- *Amortised cost*

Financial assets held for collection of contractual cash flows, where those cash flows represent Solely Payments of Principal and Interest ("SPPI"), are measured at amortised cost. A gain or loss on an investment in debt instruments subsequently measured at amortised cost, and not part of a hedging relationship, is recognised in the consolidated statement of income when the asset is de-recognised or

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

impaired. Interest income from these financial assets is included in finance income using the Effective Interest Rate ("EIR") method.

- *FVOCI*

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the consolidated statement of income. When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the consolidated statement of income and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the EIR method. Foreign exchange gains and losses are presented in other income/expense.

- *FVIS*

Financial assets at fair value through income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through income statement, irrespective of the business model.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income. This category includes derivative instruments.

#### *Equity instruments*

The Group measures all investments in equity instruments at fair value and presents changes in fair value of investments in equity instruments in OCI. Dividends from such investments continue to be recognised in the consolidated statement of income as other income when the Group's right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

#### De-recognition

A financial asset or a part of a financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:
  - a) The Group has transferred substantially all the risks and rewards of the asset; or
  - b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instruments as part of its financial assets, which are carried at amortised cost and FVOCI.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The ECL is based on a 12-month ECL or a lifetime ECL. The 12-month ECL results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since initial recognition, the allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (the lifetime ECL).

For accounts receivables, the Group applies the simplified approach in calculating ECL's. Therefore, the Group does not track changes in credit risk, but instead recognized a loss allowance base on lifetime ECL's at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Accounting policy until end 2017

Until the end of 2017, financial assets are classified as financial assets at fair value through the statement of income, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

**Financial liabilities**

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

- Financial liabilities at FVIS; and
- Other financial liabilities measured at amortised cost using the EIR method.

The category of financial liability at FVIS has two sub-categories:

- *Designated:* A financial liability that is designated by the entity as a liability at FVIS upon initial recognition; and
- *Held for trading:* A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognised initially when the Group becomes party to contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at FVIS continue to be recorded at fair value with changes being recorded in the consolidated statement of income.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in consolidated statement of income when the liabilities are de-recognised as well as through the EIR amortisation process.

Amortised 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 method. The EIR amortisation is included as finance costs in the consolidated statement of income.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

De-recognition

A financial liability is de-recognised when the obligation under the liability is settled or discharged. 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 the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is disclosed in the consolidated statement of financial position if there is a currently enforceable legal right to offset recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

**Derivative financial instruments and hedge accounting**

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to yield curves for similar instruments.

**Inventories**

Inventories, including raw materials, work in progress, finished goods, and consumables and spare parts are measured at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs or the net realisable value. Inventories of work in progress and finished goods include cost of materials, labour and an appropriate proportion of direct overheads.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Cash dividend paid to equity holders of the Parent**

The Group recognises a liability to make cash distribution to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. In accordance with the Companies Law in KSA, a distribution is authorised when it is approved by the shareholders. Interim dividends, if any, are recorded when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

**Provisions**

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a 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 obligation amount. 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Environmental obligations

In accordance with the Group's environmental policy and applicable legal requirements, the Group recognises a provision for environmental clean-up cost when it is probable that a legal or constructive liability has materialised and the amount of cash outflow can be reasonably estimated.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost meeting its obligation under the contract.

De-commissioning liability

The Group records a provision for de-commissioning costs of manufacturing facilities when an obligation exists. De-commissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the de-commissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of income as a finance cost. The estimated future cost of de-commissioning is reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

**Employee benefits**

Long-term employee benefit obligations

Long-term employee benefit obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expected future salary increase and historic attrition rates. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate or government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The Group offers various post-employment schemes, including both defined contribution and

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

defined benefit plans, and post-employment medical and life insurance plans for eligible employees and their dependents.

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation. The contributions are recognised as employee benefit expense in the consolidated statement of income when they are due.

Within KSA, the Group offers a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Group's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance, and for the purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and the net liability to employees is reported under the employee benefits liability.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group primarily has end of service benefits, defined benefit pension plans and post-retirement medical and life insurance plans, which qualify as defined benefit plans.

*End of service benefits and pension plans*

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Group's policy. In other countries, the respective labour laws are taken into consideration.

The net pension asset or liability recognised in the consolidated statement of financial position in respect of defined benefit post-employment plans is the present value of the projected Defined Benefits Obligation ("DBO") less the fair value of plan assets, if any, at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets.

DBO costs are calculated, using the actuarially determined pension cost rate at the end of the prior year, adjusted for significant market fluctuations and for any significant one-off events, such as plan amendments, curtailments and settlements. In the absence of such significant market fluctuations and one-off events, the actuarial liabilities are rolled forward based on the assumptions as at the beginning of the year. If there are significant changes to the assumptions or arrangements during the interim period, consideration is given to re-measure such liabilities and the related costs.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of income as past service costs.

When the benefits plan are amended, the portion of the change in benefit relating to the past service by employees is recognised as an expense or income; if applicable, on a straight-line basis over the average period until the benefits become vested in the consolidated statement of income. To the extent that benefits

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

vest immediately, the expense or income, if applicable is recognised immediately in the consolidated statement of income.

Current and past service costs related to post-employment benefits are recognised immediately in the consolidated statement of income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

Employee Home Ownership Program (“HOP”)

Certain companies within the Group have established employee’s HOP that offer eligible employees the opportunity to buy residential units constructed by these subsidiaries through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Group. HOP is recognised as a non-current prepayment asset at time the residential units are allocated to the employees and are amortised over the repayment period of the facility due from employees.

Employee Home Loan Program (“HLP”)

The Group provides interest free home loan to its eligible employees for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee’s pay.

HLP is recognised as a non-current financial asset at fair value and measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of cash given to the employee is recognised as a “non-current prepaid employee benefit” and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

**Revenue recognition**

Sales revenue

The Group recognises revenue when control of the products sold, transfers to the customer, which shall be considered in the context of a five-step approach and applying the applicable shipping terms.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue arrangements are assessed against specific criteria to determine whether the Group is acting as a principal or agent.

*Rights of return*

When a contract with a customer provides a right of return of the good within a specified period, the Group accounts for the right of return when requested by the customer and contractual conditions are met.

*Allocation of performance obligations*

In certain instances, the Group determines delivery services as separately identifiable and distinct from the sale of goods. These are when the Group transfers control of goods at the Group’s loading site and provides delivery services to the buyer’s site. The Group allocates a portion of the total transaction price to delivery services based on a best estimate of a similar stand-alone service.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Variable pricing—preliminary pricing

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of control of the products while the final price for the products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of the products at an amount representing the expected final amount of consideration that the Group receives.

Where the Group records an 'accounts receivable' for the preliminary price, subsequent changes in the estimated final price shall not be recorded as revenue until such point in time at which the actual final price is determined (as long as these changes result from changes in the market price/market price index of the products). They may however be considered in subsequent re-measurement as a financial asset at fair value. Such re-measurement may be recorded as a separate revenue.

All other updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or contract liability. Such contract asset or liability is de-recognised against an accounts receivable at the point in time at which the actual final price is determined.

Variable pricing—volume rebates

The Group provides retrospective volume rebates to its customers on products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group estimates the expected volume rebates using a prudent assessment of the expected amount of rebates, reviewed and updated on a regular basis. These amounts will subsequently be repaid in cash to the customer or are offset against amounts payable by the customer, if allowed by the contract.

Volume rebates give rise to variable consideration. The Group considers the "most likely amount" method to be the best estimate of this variable consideration.

Rendering of services

In certain instances, the Group provides logistic services for goods sold. This service is satisfied over the period of delivery. Consequently, the Group defers revenue allocated to the logistic services and recognise it over that period.

Accounting policy until end 2017

Until the end of 2017, the Group recognized revenue in accordance with IAS 18 'Revenue'. The prevailing principle of recognizing revenue was upon the sale of goods when significant risks and rewards of ownership of the goods have been passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods was measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

**Finance income**

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as investments in equity instruments at FVOCI, finance income is recorded using the EIR. EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**7 Property, plant and equipment**

	For the year ended 31 December 2018						
	Land and buildings	Plant and equipment	Furniture and fixtures	Vehicles	Finance lease	Assets under construction	Total
<b>Cost:</b>							
At the beginning of the year	31,853,024	281,502,829	1,016,897	755,245	1,217,233	24,894,448	341,239,676
Additions	207,171	2,090,600	17,238	16,655	29,858	11,812,453	14,173,975
Transfers <sup>(i)</sup>	975,707	13,426,401	39,453	4,659	79,795	(16,235,952)	(1,709,937)
Disposals	(165,221)	(985,644)	(14,111)	(29,584)	(578)	(146,612)	(1,341,750)
Currency translation adjustment	(302,680)	(1,605,634)	(12,498)	(1,293)	(45)	(56,394)	(1,978,544)
At the end of the year	<u>32,568,001</u>	<u>294,428,552</u>	<u>1,046,979</u>	<u>745,682</u>	<u>1,326,263</u>	<u>20,267,943</u>	<u>350,383,420</u>
<b>Accumulated depreciation and impairment:</b>							
At the beginning of the year	(14,807,964)	(156,161,828)	(754,507)	(554,027)	(633,818)	(971,621)	(173,883,765)
Charge for the year	(1,054,903)	(13,230,628)	(64,986)	(45,421)	(76,499)	—	(14,472,437)
Impairment	—	(303,750)	—	—	—	—	(303,750)
Transfers	(22,193)	(1,046,616)	5,853	(48)	—	937,022	(125,982)
Disposals	143,179	936,681	12,388	20,620	577	—	1,113,445
Currency translation adjustment	125,847	975,049	8,462	(444)	(161)	—	1,108,753
At the end of the year	<u>(15,616,034)</u>	<u>(168,831,092)</u>	<u>(792,790)</u>	<u>(579,320)</u>	<u>(709,901)</u>	<u>(34,599)</u>	<u>(186,563,736)</u>
<b>Net book amounts:</b>							
At 31 December 2018	<u>16,951,967</u>	<u>125,597,460</u>	<u>254,189</u>	<u>166,362</u>	<u>616,362</u>	<u>20,233,344</u>	<u>163,819,684</u>
At 1 January 2018	17,045,060	125,341,001	262,390	201,218	583,415	23,922,827	167,355,911

(i) Includes transfers within property, plant and equipment and transfer of housing units constructed for employees to other non-current assets.

	For the year ended 31 December 2017						
	Land and buildings	Plant and equipment	Furniture and fixtures	Vehicles	Finance lease	Assets under construction	Total
<b>Cost:</b>							
At the beginning of the year	30,135,060	269,962,131	937,676	747,204	1,217,969	25,670,957	328,670,997
Additions	96,779	3,473,092	11,151	11,935	—	7,504,425	11,097,382
Transfers	992,607	6,898,846	59,797	2,215	—	(8,343,989)	(390,524)
Disposals	(90,017)	(2,030,891)	(10,141)	(8,437)	(867)	(45,781)	(2,186,134)
Write down	(14,362)	(59,811)	—	(538)	—	(103,414)	(178,125)
Currency translation adjustment	732,957	3,259,462	18,414	2,866	131	212,250	4,226,080
At the end of the year	<u>31,853,024</u>	<u>281,502,829</u>	<u>1,016,897</u>	<u>755,245</u>	<u>1,217,233</u>	<u>24,894,448</u>	<u>341,239,676</u>
<b>Accumulated depreciation and impairment:</b>							
At the beginning of the year	(13,237,142)	(142,658,096)	(662,491)	(508,372)	(585,907)	(669,007)	(158,321,015)
Charge for the year	(1,043,519)	(12,689,525)	(74,505)	(52,154)	(68,514)	—	(13,928,217)
Impairment and write down	(105,527)	(976,939)	(15)	538	(921)	(302,614)	(1,385,478)
Transfers	(142,450)	289,860	(13,550)	—	21,022	—	154,882
Disposals	88,640	1,936,588	9,947	8,182	867	—	2,044,224
Currency translation adjustment	(367,966)	(2,063,716)	(13,893)	(2,221)	(365)	—	(2,448,161)
At the end of the year	<u>(14,807,964)</u>	<u>(156,161,828)</u>	<u>(754,507)</u>	<u>(554,027)</u>	<u>(633,818)</u>	<u>(971,621)</u>	<u>(173,883,765)</u>
<b>Net book amounts:</b>							
At 31 December 2017	<u>17,045,060</u>	<u>125,341,001</u>	<u>262,390</u>	<u>201,218</u>	<u>583,415</u>	<u>23,922,827</u>	<u>167,355,911</u>
At 1 January 2017	16,897,918	127,304,035	275,185	238,832	632,062	25,001,950	170,349,982

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Allocation of depreciation charge for the year**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Cost of sales . . . . .	<b>13,903,349</b>	13,268,321
Selling and distribution expenses . . . . .	<b>59,737</b>	74,328
General and administrative expenses . . . . .	<b>509,351</b>	585,568
Total . . . . .	<b><u>14,472,437</u></b>	<b><u>13,928,217</u></b>

Land and building

The land on which plant and related facilities of certain subsidiaries in KSA are constructed are leased from the Royal Commission for Jubail and Yanbu under renewable lease agreements for a period up to 30 years. Land and buildings include an amount of SR 2.04 billion as of 31 December 2018 (2017: SR 2.04 billion) representing the cost of freehold land.

Assets under construction

Assets under construction mainly represents the expansion of existing plants and new projects being executed by certain subsidiaries. The related capital commitments are reported in Note 37.

Capitalised borrowing costs

The borrowing cost capitalised during the year ended 31 December 2018 amounted to SR 0.04 billion (2017: SR 0.18 billion), out of which SR 0.02 billion (2017: SR 0.10 billion) relate to non-conventional facilities. The Group uses the capitalisation rate of 4% (2017: 4%) to determine the amount of borrowing costs eligible for capitalisation.

Finance lease

Leased assets are pledged as security for the related finance lease and hire purchase liabilities.

Pledged property, plant and equipment

Property, plant and equipment of certain subsidiaries in the KSA pledged to Saudi Industrial Development Fund ("SIDF") as security for its term loans amounting to SR 34.62 billion (2017: SR 36.86 billion).

Impairment and write down of plant and equipment

During the year ended 31 December 2018, total impairment and write down, amounting to SR 0.30 billion (2017: SR 1.56 billion), was recorded against the plant and equipment mainly are as follows:

- During 2018, impairment was determined based on the fair value less cost of disposal of the related CGU. (Note 8).
- During 2017, an impairment loss amounting to SR 0.48 billion, recorded against certain plant and equipment of subsidiaries to bring these to their recoverable amount due to lower profitability and demand. The recoverable amount of the plant and equipment were computed as SR 1.37 billion as at 31 December 2017 based on "value-in-use" method and determined at the level of CGU as identified by respective subsidiaries' management. In determining value in use for the CGU, the cash flows—determined using approved 5-year business plan and budget—were discounted at a rate of

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

7.48%-9.49% on a pre-zakat basis and were projected up to the year 2047 in line with the estimated useful life of the concerned plant and equipment.

- During 2017, a write down amounting SR 1.08 billion recorded against certain plant and equipment that have been decided to be idle as a result of their economic conditions and were not expected to bring these plant and equipment to become operative in the near future and hence the amount above is recognised in the consolidated statement of income under cost of sales. These write-downs were to reduce the total carrying value of certain plant and equipment to nil.

**8 Intangible assets**

	For the year ended 31 December 2018					Total
	Goodwill	Software and IT development	Licenses	Others <sup>(i)</sup>	Intangibles under development	
<b>Cost:</b>						
At the beginning of the year . . . . .	9,089,745	2,328,153	9,906,856	105,741	32,950	21,463,445
Additions . . . . .	—	1,310	65,611	1,092	3,045	71,058
Additions—through business combination (Note 9) . . . . .	—	—	201,668	—	—	201,668
Transfers . . . . .	—	44,376	65,514	(49,145)	(28,903)	31,842
Impairment and write down . . . . .	(97,500)	(202,867)	(649)	(836)	(4,047)	(305,899)
Currency translation adjustment . . . . .	(248,350)	(17,524)	(57,231)	(2,598)	—	(325,703)
At the end of the year . . . . .	<u>8,743,895</u>	<u>2,153,448</u>	<u>10,181,769</u>	<u>54,254</u>	<u>3,045</u>	<u>21,136,411</u>
<b>Accumulated amortisation:</b>						
At the beginning of the year . . . . .	—	(1,651,660)	(6,215,522)	(53,866)	—	(7,921,048)
Charge for the year . . . . .	—	(192,560)	(471,084)	—	—	(663,644)
Transfers . . . . .	—	—	101,862	—	—	101,862
Write down . . . . .	—	202,867	649	40,649	—	244,165
Currency translation adjustment . . . . .	—	10,343	38,644	478	—	49,465
At the end of the year . . . . .	<u>—</u>	<u>(1,631,010)</u>	<u>(6,545,451)</u>	<u>(12,739)</u>	<u>—</u>	<u>(8,189,200)</u>
Net book amounts:						
At 31 December 2018 . . . . .	<u>8,743,895</u>	<u>522,438</u>	<u>3,636,318</u>	<u>41,515</u>	<u>3,045</u>	<u>12,947,211</u>
At 1 January 2018 . . . . .	9,089,745	676,493	3,691,334	51,875	32,950	13,542,397

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

For the year ended 31 December 2017						
	Goodwill	Software and IT development	Licenses	Others <sup>(i)</sup>	Intangibles under development	Total
Cost:						
At the beginning of the year . . . . .	8,432,788	2,461,065	9,079,283	20,605	44,916	20,038,657
Additions . . . . .	—	23,339	269,531	6,652	74,200	373,722
Transfers . . . . .	—	(60,800)	549,047	76,684	(86,166)	478,765
Write down . . . . .	—	(139,028)	(129,616)	(4,634)	—	(273,278)
Currency translation adjustment . . . . .	656,957	43,577	138,611	6,434	—	845,579
At the end of the year . . . . .	<u>9,089,745</u>	<u>2,328,153</u>	<u>9,906,856</u>	<u>105,741</u>	<u>32,950</u>	<u>21,463,445</u>
Accumulated amortisation:						
At the beginning of the year . . . . .	—	(1,571,844)	(5,530,686)	(10,219)	—	(7,112,749)
Charge for the year . . . . .	—	(235,318)	(663,768)	(18,481)	—	(917,567)
Transfers . . . . .	—	35,617	(67,701)	(28,561)	—	(60,645)
Write down . . . . .	—	139,028	128,030	4,634	—	271,692
Currency translation adjustment . . . . .	—	(19,143)	(81,397)	(1,239)	—	(101,779)
At the end of the year . . . . .	<u>—</u>	<u>(1,651,660)</u>	<u>(6,215,522)</u>	<u>(53,866)</u>	<u>—</u>	<u>(7,921,048)</u>
Net book amounts:						
At 31 December 2017 . . . . .	<u>9,089,745</u>	<u>676,493</u>	<u>3,691,334</u>	<u>51,875</u>	<u>32,950</u>	<u>13,542,397</u>
At 1 January 2017 . . . . .	<u>8,432,788</u>	<u>889,221</u>	<u>3,548,597</u>	<u>10,386</u>	<u>44,916</u>	<u>12,925,908</u>

(i) Others includes trademarks, customer lists, (un)patented technology, in-house developed software and technology and innovation assets.

**Allocation of amortisation charge for the year**

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cost of sales . . . . .	<u>529,906</u>	818,741
General and administrative expenses . . . . .	<u>133,738</u>	98,826
Total . . . . .	<u>663,644</u>	<u>917,567</u>

Goodwill

Goodwill, resulting from the Group's acquisitions in 2002 and 2007, has been allocated to the Group's CGUs at which the goodwill is managed. For goodwill impairment testing, these CGUs are Petrochemicals and Specialties. The goodwill allocated to Petrochemicals amounts to SR 5.99 billion and to Specialties SR 2.82 billion. The Weighted Average Cost of Capital ("WACC") rate applied is 7.1% for Petrochemicals (2017: 6.4%) and for Specialties 7.7% (2017: 7.3%)

The WACC is calculated based on long-term moving monthly average assumptions that reflect market assessments of the risk specific to each CGU. Segment specific risk is incorporated by applying average beta factors. The beta factors are evaluated annually based on publicly available market data of SABIC's peers. The average effective tax rate is assumed to be 23%-25% (2017: 25%). The cash flow projections are derived from the respective business plans. Cash flow projections beyond the five year business plan are extrapolated taking into account an assumed growth rate of 1.1%-2.0% (2017: 1.8%- 2.0%).

During 2018, the impairment and write down included an amount of SR 0.098 billion (2017: SR NIL) was determined based on the fair value less cost of disposal of the related CGU. (Note 7).

With respect to the assessment of the value in use, management believes that a reasonably possible change in its used assumptions would not cause the carrying value of its goodwill to exceed its recoverable amount further.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**9 Investments in associates and joint ventures**

The table below outlines the Group's investment in associates and joint venture companies:

Name of associates and joint ventures	Ownership %	Place of business / country of incorporation	Nature of activities	31 December 2018	31 December 2017
<b>Associate:</b>					
Gulf Petrochemical Industries Company ("GPIC")	33.33	Bahrain	Petrochemical	<b>697,515</b>	628,503
Gulf Aluminium Rolling Mills Company ("GARMCO")	30.40	Bahrain	Aluminium	—	83,059
Ma'aden Phosphate Company ("MPC")	30.00	KSA	Agri-nutrients	<b>2,125,868</b>	1,960,276
Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ")	24.81	KSA	Utilities	<b>1,696,036</b>	1,719,222
Aluminium Bahrain BSC ("ALBA")	20.62	Bahrain	Aluminium	<b>2,227,253</b>	2,152,435
National Chemical Carrier Company ("NCC")	20.00	KSA	Transportation	<b>301,975</b>	331,604
Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC")	15.00	KSA	Agri-nutrients	<b>1,876,238</b>	1,799,877
Saudi Arabian Industrial Investment Company ("Dussur")	25.00	KSA	Investments	<b>115,706</b>	144,687
Clariant AG ("Clariant") (Note 9.1)	24.99	Switzerland	Specialty chemical	<b>10,550,156</b>	—
Black Diamond Structures, LLC ("Black Diamond") <sup>(i)</sup>	50.00	USA	Specialties	—	103,926
Others		—	—	<b>874,588</b>	766,199
<b>Joint venture:</b>					
Sinopec Sabic Tianjin Petrochemical Company ("SSTPC")	50.00	China	Petrochemical	<b>4,770,486</b>	4,031,268
Sabic SK Nexlene Company ("SSNC")	50.00	Singapore	Petrochemical	<b>544,729</b>	583,084
				<b><u>25,780,550</u></b>	<b><u>14,304,140</u></b>

(i) The Group acquired control over Black Diamond as per 1 January 2018. Due to change in control, this equity investment is consolidated from 1 January 2018. The carrying values of total assets amounted to SR 0.2 billion reflected the fair value at the date of acquisition.

**9.1 Acquisition of Clariant**

At 10 September 2018, SABIC acquired approximately 83 million shares equivalent to 24.99% ownership in Clariant, a global specialty chemical company listed at the Swiss Stock Exchange ("SIX"). As major stakeholder, management considers having significant influence, without having control over Clariant. Therefore, this investment is accounted for as an associate using the equity method.

Due to prevailing Swiss law and regulations, the preliminary Purchase Price Allocation ("PPA") is based on public available information only. Through an independent appraiser, management applied a benchmark analysis approach, where it reviewed recent PPA's of transactions in the chemicals industry and applied the outcome of this analysis on the applied enterprise value of Clariant. This is subject to further assessment of the fair value of the (net) assets of Clariant during next 12 months.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The Group paid a consideration of SR 10.82 billion which includes an initial goodwill amounting to SR 5.38 billion. The market price of a Clariant share was Swiss Francs (CHF) 18.09 [approximately SR 68] each as at 28 December 2018, the last trading day at SIX, amounting to a total quoted fair value of approximately SR 5.72 billion. Management believes that the fair value per share as unit of account is not representative of the value of this investment. A premium on this investment is considered appropriate, given the fact that SABIC has significant influence through its 24.99% share in Clariant and the fact that on 18 September 2018, SABIC and Clariant announced their long-term strategic relationship, whereby both parties are currently in discussion about strategic initiatives. At year-end, management assessed the carrying value of its investment using the higher of fair value less cost of disposal and value in use approach using publicly available information taking an average analyst consensus and reasonable assumptions. Based on its assessment, management concluded that the carrying value of this investment at 31 December 2018 is supportable under both valuation methodologies.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**  
For the year ended 31 December 2018  
(All amounts in Saudi Riyals '000 unless otherwise stated)

The movement of investments in associate and joint venture is as follows:

	For the year ended 31 December 2018												
	Associates						Joint ventures						
	GPIC	GARMCO	MPC	MARAFIQ	ALBA	NCC	MWSPC	Dussur	Clariant	Others	SSTPC	SSNC	Total
Balance at the beginning of the year . . . . .	628,503	83,059	1,960,276	1,719,222	2,152,435	331,604	1,799,877	144,687	—	870,125	4,031,268	583,084	14,304,140
Capital contribution during the year . . . . .	—	—	—	—	—	—	—	—	10,822,077	132,683	190,475	—	11,145,235
Share of results . . . . .	106,803	(83,026)	163,160	(7,977)	150,543	(29,677)	77,169	(28,905)	(106,973)	(24,292)	831,728	1,297	1,049,850
Movements in OCI . . . . .	(291)	(33)	2,432	20,185	—	48	(808)	(76)	(164,948)	—	236,920	(39,652)	53,777
Dividends received . . . . .	(37,500)	—	—	(35,394)	(75,725)	—	—	—	—	—	(504,217)	—	(652,836)
Others <sup>(i)</sup> . . . . .	—	—	—	—	—	—	—	—	—	(103,928)	(15,688)	—	(119,616)
Balance at the end of the year . . . . .	697,515	—	2,125,868	1,696,036	2,227,253	301,975	1,876,238	115,706	10,550,156	874,588	4,770,486	544,729	25,780,550

(i) Others include obtaining control of Black Diamond Structures, LLC as well as other movements in joint ventures.

	For the year ended 31 December 2017											
	Associates						Joint ventures					
	GPIC	GARMCO	MPC	MARAFIQ	ALBA	NCC	MWSPC	Dussur	Others	SSTPC	SSNC	Total
Balance at the beginning of the year . . . . .	478,150	106,300	1,885,816	1,643,288	2,017,284	319,768	1,587,540	96,240	808,382	3,508,677	488,879	12,940,324
Capital contribution during the year . . . . .	—	—	—	—	—	—	140,625	92,550	119,820	—	—	352,995
Share of results . . . . .	43,853	(23,241)	74,460	83,705	196,314	11,836	71,712	(44,103)	(35,453)	1,059,693	(19,096)	1,419,680
Movements in OCI . . . . .	—	—	—	23,241	—	—	—	—	(56,294)	(265,171)	113,301	(184,923)
Dividends received, net of withholding tax and adjustments <sup>(i)</sup> . . . . .	106,500	—	—	(31,012)	(61,163)	—	—	—	33,670	(271,931)	—	(223,936)
Balance at the end of the year . . . . .	628,503	83,059	1,960,276	1,719,222	2,152,435	331,604	1,799,877	144,687	870,125	4,031,268	583,084	14,304,140

(i) Adjustments related to prior year's dividend declaration from GPIC, which has been rescinded in 2017 and thus reversed.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Summarised financial information of associates**

The tables below provide summarised financial information of the material associates of the Group. The information disclosed reflects the amounts presented in the available financial statements of the relevant investee and not SABIC's share of those amounts.

	<u>MPC</u>	<u>MARAFIQ</u>	<u>ALBA</u>	<u>MWSPC<sup>(i)</sup></u>	<u>Clariant<sup>(ii)</sup></u>
	<u>As at 31 December 2018</u>				
Current assets . . . . .	<u>2,837,269</u>	<u>3,349,284</u>	<u>4,507,876</u>	<u>3,763,582</u>	<u>12,727,365</u>
Non-current assets . . . . .	<u>14,624,827</u>	<u>19,186,046</u>	<u>17,034,081</u>	<u>27,180,114</u>	<u>31,803,920</u>
Current liabilities . . . . .	<u>1,547,546</u>	<u>2,959,695</u>	<u>4,204,279</u>	<u>2,330,057</u>	<u>8,770,556</u>
Non-current liabilities . . . . .	<u>8,828,324</u>	<u>12,739,537</u>	<u>6,536,255</u>	<u>19,705,388</u>	<u>14,746,700</u>
Net assets . . . . .	<u>7,086,226</u>	<u>6,836,098</u>	<u>10,801,423</u>	<u>8,908,251</u>	<u>21,014,029</u>
<u>Reconciliation:</u>					
Group's share in % . . . . .	<u>30.00%</u>	<u>24.81%</u>	<u>20.62%</u>	<u>15.00%</u>	<u>24.99%</u>
Group's share in associate . . . . .	<u>2,125,868</u>	<u>1,696,036</u>	<u>2,227,253</u>	<u>1,336,238</u>	<u>5,251,406</u>
Intangible / goodwill . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>540,000</u>	<u>5,298,750</u>
Carrying amount . . . . .	<u>2,125,868</u>	<u>1,696,036</u>	<u>2,227,253</u>	<u>1,876,238</u>	<u>10,550,156</u>
	<u>For the year ended 31 December 2018</u>				
Revenue . . . . .	<u>5,215,648</u>	<u>4,053,837</u>	<u>9,075,806</u>	<u>1,163,825</u>	<u>25,393,900</u>
Net income for the year—all from continuing operations . . . . .	<u>705,082</u>	<u>228,214</u>	<u>594,270</u>	<u>415,816</u>	<u>1,364,975</u>
<u>Reconciliation:</u>					
Group's share in % . . . . .	<u>30.00%</u>	<u>24.81%</u>	<u>20.62%</u>	<u>15.00%</u>	<u>24.99%</u>
Group's share in associate . . . . .	<u>211,525</u>	<u>56,620</u>	<u>122,538</u>	<u>62,372</u>	<u>341,107</u>
Share in earnings (losses) <sup>(iii)</sup> . . . . .	<u>163,160</u>	<u>(7,977)</u>	<u>150,543</u>	<u>77,169</u>	<u>(106,973)</u>

Notes:

- (i) The Group's investment in MWSPC includes additional contribution made to one of the shareholders in relation to mineral rights.
- (ii) The Group's share in losses of Clariant's net income over the period from 10 September 2018 until year-end are recorded after fair value adjustments.
- (iii) The Group's share of earnings (losses) include certain adjustments made in Group's share of investments and earnings (losses).



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<u>MPC</u>	<u>MARAFIQ</u>	<u>ALBA</u>	<u>MWSPC</u>
	<u>As at 31 December 2017</u>			
Current assets . . . . .	2,388,835	3,967,877	4,356,845	2,175,416
Non-current assets . . . . .	15,219,205	21,443,315	12,337,072	26,328,595
Current liabilities . . . . .	1,824,375	2,772,990	1,764,673	2,111,058
Non-current liabilities . . . . .	9,249,412	15,708,648	4,490,666	17,993,770
Net assets . . . . .	<u>6,534,253</u>	<u>6,929,554</u>	<u>10,438,578</u>	<u>8,399,183</u>
<b>Reconciliation:</b>				
Group's share in % . . . . .	30.00%	24.81%	20.62%	15.00%
Group's share in associate . . . . .	1,960,276	1,719,222	2,152,435	1,259,877
Intangible . . . . .	—	—	—	540,000
Carrying amount . . . . .	<u>1,960,276</u>	<u>1,719,222</u>	<u>2,152,435</u>	<u>1,799,877</u>
<b>For the year ended 31 December 2017</b>				
Revenue . . . . .	<u>4,253,916</u>	<u>3,983,429</u>	<u>8,494,263</u>	<u>1,096,917</u>
Net income for the year—all from continuing operations . . . . .	<u>248,200</u>	<u>337,384</u>	<u>952,056</u>	<u>478,080</u>
<b>Reconciliation:</b>				
Group's share in % . . . . .	30.00%	24.81%	20.62%	15.00%
Group's share in associate . . . . .	<u>74,460</u>	<u>83,705</u>	<u>196,314</u>	<u>71,712</u>
Share in earnings . . . . .	<u>74,460</u>	<u>83,705</u>	<u>196,314</u>	<u>71,712</u>

**Summarised financial information of joint ventures**

The tables below provide the summarised financial information of SSTPC, a material joint venture of the Group. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not SABIC's share of those amounts.

	<u>As at 31 December 2018</u>	<u>As at 31 December 2017</u>
Cash and bank balances . . . . .	<b>2,778,440</b>	3,759,990
Total current assets . . . . .	<b>4,956,637</b>	5,321,463
Non-current assets . . . . .	<b>8,384,204</b>	8,460,766
Current financial liabilities (excluding trade payables) . . . . .	<b>785,666</b>	1,507,095
Total current liabilities . . . . .	<b>1,634,680</b>	2,620,246
Total non-current liabilities . . . . .	<b>2,165,189</b>	3,099,448
Net assets . . . . .	<u><b>9,540,972</b></u>	<u>8,062,535</u>
<b>Reconciliation:</b>		
Group's share in % . . . . .	<b>50.00%</b>	50.00%
Group's share in joint venture . . . . .	<u><b>4,770,486</b></u>	<u>4,031,268</u>
Carrying amount . . . . .	<u><b>4,770,486</b></u>	<u>4,031,268</u>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Revenue .....	<b>10,334,966</b>	12,844,702
Depreciation and amortisation .....	<b>483,784</b>	(446,064)
Interest income .....	<b>94,355</b>	57,921
Interest expense .....	<b>(95,467)</b>	(123,731)
Income tax expense .....	<b>(559,773)</b>	(709,951)
Net income for the year—all from continuing operations .....	<b><u>1,663,456</u></b>	<u>2,119,386</u>
<u>Reconciliation:</u>		
Group's share in % .....	<b><u>50.00%</u></b>	<u>50.00%</u>
Group's share of earnings in joint venture .....	<b><u>831,728</u></b>	<u>1,059,693</u>
Share of earnings .....	<b><u>831,728</u></b>	<u>1,059,693</u>

**Summarised financial information of individually immaterial associates and joint venture**

	<u>For the year ended 31 December 2018</u>		<u>For the year ended 31 December 2017</u>	
	<u>Individually immaterial associates</u>	<u>Individually immaterial joint ventures</u>	<u>Individually immaterial associates</u>	<u>Individually immaterial joint ventures</u>
Net income (loss) for the year—all from continuing operations .....	<b><u>556,571</u></b>	<b><u>20,013</u></b>	<u>72,364</u>	<u>(43,995)</u>

**Fair value of listed associates**

The fair value of the Group's investment in ALBA and Clariant is SR 1.75 billion and SR 5.72 billion (Note 9.1) respectively (2017: ALBA SR 1.79 billion).

**10 Investments in debt instruments**

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Current (in short-term investments)</i>		
Fixed rate instruments .....	<b>93,750</b>	—
Floating rate instrument .....	<b>481,460</b>	390,320
	<b><u>575,210</u></b>	<u>390,320</u>
<i>Non-current</i>		
Fixed rate instruments .....	<b>1,146,865</b>	1,755,531
Floating rate instrument .....	<b>1,347,015</b>	1,299,630
	<b><u>2,493,880</u></b>	<u>3,055,161</u>
	<b><u>3,069,090</u></b>	<u>3,445,481</u>

As at 2017, the investments in debt instruments were classified as held-to-maturity investments (Note 4).

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

*Currency exposure*

	<b>31 December 2018</b>	<b>31 December 2017</b>
SR .....	<b>1,641,779</b>	2,029,856
USD .....	<b>1,427,311</b>	1,415,625
	<b>3,069,090</b>	<b>3,445,481</b>

**11 Investments in equity instruments**

Carrying value of the investments in equity instruments carried at FVOCI are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<i>Listed securities</i>		
Equity securities .....	—	20
<i>Unlisted securities</i>		
Equity securities .....	<b>784,815</b>	396,817
Mutual fund units .....	<b>305,294</b>	299,406
	<b>1,090,109</b>	696,223
Total .....	<b>1,090,109</b>	696,243

As at 2017, the investments in equity instruments were classified as available-for-sale financial assets (Note 4).

**12 Other non-current assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Employee advances .....	<b>3,585,847</b>	2,576,031
Loan receivable from related parties .....	<b>620,029</b>	576,090
Pre-paid mining fee .....	<b>112,500</b>	112,500
Re-imbursment of tax receivable .....	—	244,112
Others .....	<b>808,080</b>	710,767
	<b>5,126,456</b>	4,219,500

**Employee advances**

Employee advances represents receivables from employees related to HOP and other benefits.

**Loan receivable from related parties**

Loans receivable from related parties relates to certain associates and joint ventures at normal market rates.

**Re-imbursment of tax receivable**

Reimbursement of tax payments relates to the recovery of the tax payments from GE Company as a result of the purchase price agreement related to the acquisition of SABIC Innovative Plastics Holding B.V., a subsidiary of SLUX. During 2018, this amount transferred to prepayment and other current assets as the collection is expected within twelve months.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Others**

Others mainly include advances to contractors and miscellaneous items

**13 Financial assets and financial liabilities**

	31 December 2018							
	Total	Financial assets / liabilities at amortised cost	Financial assets / liabilities at FVIS	Financial assets at FVOCI	Fair value <sup>(iii)</sup>	Level I	Level II	Level III
<b>Financial assets</b>								
Investments in debt instruments								
—Fixed	1,240,615	1,240,615	—	—	1,720,920	—	1,720,920	—
—Floating	1,828,475	1,441,498	386,977	—	1,692,752	—	1,692,752	—
Investments in equity instruments								
—Unquoted	1,090,109	—	—	1,090,109	1,090,109	—	305,294	784,815
Derivative financial assets	29,651	—	29,651	—	29,651	—	29,651	—
Trade receivables	21,821,849	21,821,849	—	—	N/A	—	—	—
Short-term investments								
—Time deposits	9,240,289	9,240,289	—	—	N/A	—	—	—
Cash and bank balances								
—Bank balances	13,152,820	13,152,820	—	—	N/A	—	—	—
—Time deposits	29,437,610	29,437,610	—	—	N/A	—	—	—
Other financial assets <sup>(iii)</sup>	1,780,085	1,780,085	—	—	N/A	—	—	—
<b>Total</b>	<b>79,621,503</b>	<b>78,114,766</b>	<b>416,628</b>	<b>1,090,109</b>	<b>4,533,432</b>	<b>—</b>	<b>3,748,617</b>	<b>784,815</b>
<b>Financial liabilities</b>								
Debt	47,263,241	47,263,241	—	—	45,715,403	—	45,715,403	—
Derivative financial liabilities	381	—	381	—	381	—	381	—
Trade payables	14,969,357	14,969,357	—	—	N/A	—	—	—
Other financial liabilities <sup>(ii)</sup>	3,357,882	3,357,882	—	—	N/A	—	—	—
<b>Total</b>	<b>65,590,861</b>	<b>65,590,480</b>	<b>381</b>	<b>—</b>	<b>45,715,784</b>	<b>—</b>	<b>45,715,784</b>	<b>—</b>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

31 December 2017

	Total	Loans and advances/ liabilities at amortised cost	Financial assets / liabilities at FVIS	Available for sale through OCI	Fair value (iii)	Level I	Level II	Level III
<b>Financial assets</b>								
Held-to-maturity investments	3,445,481	3,445,481	—	—	3,856,110	—	3,856,110	—
Available for sale financial assets								
—Quoted	20	—	—	20	20	20	—	—
—Unquoted <sup>(i)</sup>	696,223	—	—	696,223	299,406	—	299,406	—
Derivative financial assets	26,806	—	26,806	—	26,806	—	26,806	—
Trade receivables	22,609,432	22,609,432	—	—	N/A	—	—	—
Short-term investments	3,960,752	3,960,752	—	—	N/A	—	—	—
Cash and bank balances	59,038,656	59,038,656	—	—	N/A	—	—	—
Other financial assets <sup>(ii)</sup>	2,001,134	2,001,134	—	—	N/A	—	—	—
<b>Total</b>	<b>91,778,504</b>	<b>91,055,455</b>	<b>26,806</b>	<b>696,243</b>	<b>4,182,342</b>	<b>20</b>	<b>4,182,322</b>	<b>—</b>
<b>Financial liabilities</b>								
Debt	58,063,188	58,063,188	—	—	56,939,299	—	56,939,299	—
Derivative financial liabilities	16,236	—	16,236	—	16,236	—	16,236	—
Trade payables	18,061,464	18,061,464	—	—	N/A	—	—	—
Other financial liabilities <sup>(ii)</sup>	2,347,871	2,347,871	—	—	N/A	—	—	—
<b>Total</b>	<b>78,488,759</b>	<b>78,472,523</b>	<b>16,236</b>	<b>—</b>	<b>56,955,535</b>	<b>—</b>	<b>56,955,535</b>	<b>—</b>

(i) Includes SR 396,817 thousand of investments in unquoted equity shares of companies operating within and outside KSA. The fair value of these equity shares cannot be measured reliably since there is no active market available for these shares. SABIC intends to hold these investments for strategic purposes.

(ii) Other financial assets include lease receivables, loans to related parties and interest receivables, and other financial liabilities include dividend payable, payables to related parties and interest payables.

(iii) The Group assessed that trade receivables, short-term investments, cash and bank balances, trade payables and other financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Group's exposure to various risks associated with the financial instruments is discussed in Note 36. The maximum exposure to credit risk at the end of the reporting year is the carrying amount of each class of financial assets mentioned above.

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2018 and the year ended 31 December 2017.

The Group assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables and borrowings. As at 31 December 2018 and 31 December 2017, the carrying amounts of such net receivables and borrowings, were not materially different from their calculated fair values.
- Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- The valuation requires the Group to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in the Group's estimate of fair value for these unquoted investments in equity instruments. Fair value of quoted investments in equity instruments at FVOCI is derived from quoted prices in active markets.
- Due to the adoption of IFRS 9, the measurement of the available-for-sale financial assets under IAS 39, changed from cost to FVOCI (Note 4). Since the valuation performed using a significant non-observable input, the fair value is classified as a level 3 measurement.

Description of valuation techniques used and key inputs to valuation investments in equity instruments is as follows:

<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range</u>
Market approach . . . . .	<ul style="list-style-type: none"> <li>• Equity value to EBITDA multiple</li> <li>• Midpoint of Net Asset Value and Price to Book multiple</li> </ul>	7.9 to 13.1 0.76
Net Asset Value approach . . . . .	Point estimate of distributable cash and bank balances	SR 46.1 to SR 49.9
Expected Returns approach . . . . .	Equity value to Revenue multiple	0.73

**14 Inventories**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Finished goods . . . . .	<b>17,561,580</b>	15,547,664
Raw materials . . . . .	<b>4,202,729</b>	4,445,988
Spare parts . . . . .	<b>5,890,142</b>	5,560,723
Goods in transit . . . . .	<b>2,260,171</b>	2,163,711
Work in process . . . . .	<b>46,227</b>	121,183
	<b>29,960,849</b>	27,839,269
Less: Provision for slow moving and obsolete items . . . . .	<b>(1,716,046)</b>	(1,776,274)
	<b><u>28,244,803</u></b>	<u>26,062,995</u>

Movements in the provision for obsolete inventories were as follows:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Balance at 1 January . . . . .	<b>1,776,274</b>	1,500,026
(Reversal) charge for the year . . . . .	<b>(60,228)</b>	276,248
Balance at 31 December . . . . .	<b><u>1,716,046</u></b>	<u>1,776,274</u>

The Group's exposure to commodity price risks is disclosed in Note 36.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**15 Trade receivables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade receivables .....	<b>19,111,571</b>	19,838,279
Due from related parties .....	<b>3,116,951</b>	3,134,896
	<b>22,228,522</b>	22,973,175
Less: allowance for expected credit losses .....	<b>(406,673)</b>	(363,743)
	<b>21,821,849</b>	22,609,432

Accounts receivable are non-interest bearing and are generally on 30 – 120 days terms.

As of 31 December the ageing analysis of trade receivable along with related expected credit loss is as follows:

	Total	Neither past due nor impaired	Less than 60 days	61-90 days	91-180 days	181-365 days	More than one year
<b>31 December 2018</b>							
Expected credit loss rate (rounded) .....		<b>0.15%</b>	<b>1.72%</b>	<b>29.16%</b>	<b>17.34%</b>	<b>35.28%</b>	<b>52.07%</b>
Gross carrying amount .....	<b>22,228,522</b>	<b>20,442,712</b>	<b>968,193</b>	<b>34,856</b>	<b>114,193</b>	<b>108,073</b>	<b>560,495</b>
Expected credit loss .....	<b>406,673</b>	<b>30,095</b>	<b>16,655</b>	<b>10,165</b>	<b>19,797</b>	<b>38,132</b>	<b>291,829</b>
<b>1 January 2018</b>							
Expected credit loss rate (rounded) .....		0.11%	1.94%	19.78%	23.96%	36.77%	61.34%
Gross carrying amount .....	22,973,175	21,414,369	822,558	36,824	91,353	159,645	448,426
Expected credit loss .....	403,353	22,860	15,940	7,284	21,886	60,300	275,083

Movements in the allowance for expected credit losses were as follows:

	<b>2018</b>	<b>2017</b>
Opening balance .....	<b>363,743</b>	247,087
Additional allowance for expected credit losses on adoption of IFRS 9 (Note 4) .....	<b>39,610</b>	—
As at 1 January .....	<b>403,353</b>	247,087
Charge for the year .....	<b>70,411</b>	175,774
Write-off /reversals during the year .....	<b>(67,091)</b>	(59,118)
As at 31 December .....	<b>406,673</b>	363,743

**16 Prepayments and other current assets**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Prepaid expenses .....	<b>1,897,589</b>	1,811,990
Taxes and subsidies receivable .....	<b>1,198,681</b>	920,506
Current portion of loan receivable from related parties .....	<b>184,760</b>	238,760
Finance income receivable .....	<b>152,964</b>	147,627
Employee advances and receivables .....	<b>76,569</b>	91,267
Others .....	<b>1,604,294</b>	2,491,166
	<b>5,114,857</b>	5,701,316

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**17 Short-term investments**

	31 December 2018	31 December 2017
Time deposits .....	9,240,289	3,960,752
Investments in debt instruments / held-to-maturity investments (Note 10) .....	575,210	390,320
	<b>9,815,499</b>	<b>4,351,072</b>

The time deposits with banks are of original maturities of more than three months and less than twelve months and carry commission rates in line with the prevailing market rates.

**18 Cash and bank balances**

	31 December 2018	31 December 2017
Cash in hand .....	390	413
Bank balances .....	13,152,820	14,566,314
Time deposits .....	29,437,610	44,471,929
	<b>42,590,820</b>	<b>59,038,656</b>

The time deposits represent deposits with banks of original maturities of less than three months.

**18.1 Cash flows related disclosures**

Cash and cash equivalents:

	31 December 2018	31 December 2017
<b>Cash and bank balances</b> .....	<b>42,590,820</b>	<b>59,038,656</b>
<b>Less: bank overdrafts</b> .....	<b>(1,167,589)</b>	<b>(1,065,000)</b>
<b>Cash and cash equivalents at the end of the year</b> .....	<b>41,423,231</b>	<b>57,973,656</b>

Reconciliation of liabilities arising financing activities

	As at 1 January 2018	Charged during the year	Cash flows	Foreign currency exchange and other non-cash	As at 31 December 2018
Debt .....	57,198,175	—	(10,693,815)	19,956	46,524,316
Finance lease payments .....	865,013	61,025	(187,113)	—	738,925
Dividends payable to shareholders .....	1,633,220	13,200,000	(12,059,538)	—	2,773,682
Dividends paid to non- controlling interests .....	—	8,629,709	(8,736,246)	106,537	—
<b>Total financing activities</b> ...	<b>59,696,408</b>	<b>21,890,734</b>	<b>(31,676,712)</b>	<b>126,493</b>	<b>50,036,923</b>



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	As at 1 January 2017	Charged during the year	Cash flows	Foreign currency exchange and other non-cash	As at 31 December 2017
Debt .....	62,254,380	—	(5,612,441)	556,236	57,198,175
Finance lease payments .....	855,369	63,320	(53,676)	—	865,013
Dividends payable to shareholders	1,225,636	12,000,000	(11,592,416)	—	1,633,220
Dividends paid to non- controlling interests .....	—	5,390,185	(5,390,185)	—	—
Acquisition of non-controlling interests .....	—	3,075,000	(3,075,000)	—	—
Total financing activities ....	<u>64,335,385</u>	<u>20,528,505</u>	<u>(25,723,718)</u>	<u>556,236</u>	<u>59,696,408</u>

Bank balances earn interest at fixed and floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest or profit at the respective short-term deposit rates.

At 31 December 2018, the Group had available SR 10.06 billion (31 December 2017: SR 7.1 billion) of undrawn committed borrowing facilities.

The table below provides details of amounts placed in various currencies:

	31 December 2018	31 December 2017
SR .....	<b>15,700,877</b>	30,398,916
USD .....	<b>25,304,981</b>	25,342,450
Others .....	<b>1,584,962</b>	3,297,290
	<u><b>42,590,820</b></u>	<u>59,038,656</u>

## 19 Share capital

	31 December 2018	31 December 2017
Authorised shares		
Ordinary shares of SR 10 each .....	<b>3,000,000</b>	3,000,000
Ordinary shares issued and fully paid of SR 10 each .....	<b>3,000,000</b>	3,000,000
Issued and paid capital (SR '000) .....	<b>30,000,000</b>	30,000,000

## 20 Reserves

### Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, SABIC must set aside 10% of net income in each year until it has built up a reserve equal to 30% of the share capital. As the reserve has reached the minimum amount, SABIC has resolved to discontinue such transfers. The reserve is not available for distribution.

### General reserve

In accordance with SABIC's By-Laws, the General Assembly can establish general reserve as an appropriation of retained earnings. The general reserve can be increased or decreased by a resolution of the shareholders and is available for distribution.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

*Other reserves*

The following table shows a breakdown of 'other reserves' and the movements during the year:

<u>31 December 2018</u>	<u>Equity instruments and others at FVOCI</u>	<u>Foreign currency translation</u>	<u>Actuarial gain/loss</u>	<u>Cash flow hedge</u>	<u>Total</u>
At the beginning of the year . . . . .	28,956	(1,430,422)	(792,486)	(55,711)	(2,249,663)
Adoption of IFRS 9 (Note 4) . . . . .	389,300	(275)	—	—	389,025
At 1 January 2018 . . . . .	<b>418,256</b>	<b>(1,430,697)</b>	<b>(792,486)</b>	<b>(55,711)</b>	<b>(1,860,638)</b>
Net change on currency translation of foreign operations . . . . .	—	<b>(1,301,215)</b>	—	—	<b>(1,301,215)</b>
Re-measurement impact of employee benefit obligations . . . . .	—	—	<b>1,744,012</b>	—	<b>1,744,012</b>
Re-measurement impact of investments in equity instrument at . . . . .	—	—	—	—	—
FVOCI . . . . .	<b>4,880</b>	—	—	—	<b>4,880</b>
Share of other comprehensive income for associates and joint ventures . . . . .	—	<b>31,996</b>	<b>1,596</b>	<b>20,185</b>	<b>53,777</b>
Other comprehensive income for the year . . . . .	<b>4,880</b>	<b>(1,269,219)</b>	<b>1,745,608</b>	<b>20,185</b>	<b>501,454</b>
At the end of the year . . . . .	<b>423,136</b>	<b>(2,699,916)</b>	<b>953,122</b>	<b>(35,526)</b>	<b>(1,359,184)</b>

<u>31 December 2017</u>	<u>Available-for-sale financial assets</u>	<u>Foreign currency translation</u>	<u>Actuarial gain/loss</u>	<u>Cash flow hedge</u>	<u>Total</u>
At the beginning of the year . . . . .	38,979	(4,213,936)	(1,024,146)	(108,880)	(5,307,983)
Net change on currency translation of foreign operations . . . . .	—	3,021,606	—	—	3,021,606
Re-measurement impact of employee benefit obligations . . . . .	—	—	231,660	—	231,660
Re-measurement impact of investments in equity instrument at . . . . .	—	—	—	—	—
FVOCI . . . . .	(10,023)	—	—	—	(10,023)
Share of other comprehensive income for associates and joint ventures . . . . .	—	(238,092)	—	53,169	(184,923)
Other comprehensive income for the year . . . . .	(10,023)	2,783,514	231,660	53,169	3,058,320
At the end of the year . . . . .	<b>28,956</b>	<b>(1,430,422)</b>	<b>(792,486)</b>	<b>(55,711)</b>	<b>(2,249,663)</b>

Re-measurement impact of employee benefit obligations include a net (tax) benefit amounting to SR 0.01 billion (2017 SR: 0.06 billion).

**21 Non-controlling interests**

Non-controlling interests in the group companies are included in the consolidated statement of financial position as part of equity. Non-controlling interests in the net results of subsidiaries are disclosed separately in the consolidated statement of income.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals ‘000 unless otherwise stated)

**21.1 Acquisition of non-controlling interests**

On 22 January 2017 (the “Value Date”), SABIC and Shell Chemicals Arabia LLC (“Shell”), SABIC’s partner in Saudi Petrochemical Company (“Sadaf”), entered into an agreement pursuant to which SABIC agreed to purchase Shell’s entire stake in Sadaf for SR 3.075 billion (the “Transaction”), thereby increasing SABIC’s ownership interest in Sadaf from 50% to 100%. SABIC and Shell completed the Transaction on 16 August 2017.

Due to no change in control, the acquisition of Shell’s ownership interest in Sadaf is accounted for as an equity transaction. Consequently, the excess consideration paid over the carrying value of Shell’s ownership interest in Sadaf is recognised in retained earnings.

As agreed between SABIC and Shell, Shell’s share of Sadaf’s operating results related to the financial year ended 31 December 2017 has been reallocated to SABIC.

The carrying value of the net assets of Sadaf as of the Value Date was SR 2.34 billion. The details of additional interest acquired in Sadaf are:

	<b>For the year ended 31 December 2017</b>
Cash consideration paid to non-controlling interest partner (USD 0.82 billion) . . . . .	(3,075,000)
Carrying value of the additional interest in Sadaf . . . . .	<u>2,335,205</u>
Difference recognised in retained earnings . . . . .	<u>(739,795)</u>

**21.2 Absorption of loss on behalf of non-controlling interests**

During the year ended 31 December 2017, the Board of Directors of SABIC, in order to support and continue the operation of Arabian Industrial Fibers Company (“Ibn Rushd”), a subsidiary, on a going concern basis, and to ensure compliance with the regulatory obligations under the Companies Regulations, resolved and recommended the following:

- Convert SR 4.58 billion representing the value of dues owed by the subsidiary to SABIC at 1 April 2017, as an “additional non-cash investment” to reduce the subsidiary’s accumulated losses without affecting the subsidiary’s existing number of shares and shareholding rights
- Reduce the subsidiary’s share capital by SR 6.51 billion, to absorb further accumulated losses of the subsidiary, without affecting the subsidiary’s shareholding proportion
- Convert the subsidiary’s legal entity structure from closed Joint Stock Company (“JSC”) to Limited Liability Company (“LLC”)

In accordance with the outcome of Ibn Rushd’s Extra Ordinary General Assembly, held on 31 December 2017, with respect to the capital restructuring and the conversion of the legal entity structure, these recommendations/resolutions were put into effect on 31 December 2017. As no change of control has occurred, the above have been accounted for as an equity transaction, in accordance with IFRS 10—‘Consolidated Financial Statement’ provisions. This resulted in a SR 2.36 billion reduction of retained earnings attributable to the equity holders of the Parent, with an offset to non-controlling interests.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Summarised statement of financial position**

Set out below is summarised financial information for each subsidiary that has non-controlling interest that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations:

	As at 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Current assets . . . . .	6,227,525	3,428,862	5,941,261	8,044,262	3,690,629	2,165,665	2,249,981	9,173,922
Current liabilities . . . . .	1,343,865	2,938,323	2,494,188	1,560,340	2,138,286	984,443	855,264	3,295,944
<i>Current net assets</i> . . . . .	4,883,660	490,539	3,447,073	6,483,922	1,552,343	1,181,222	1,394,717	5,877,978
Non-current assets . . . . .	12,844,534	2,818,632	4,415,143	13,867,515	13,129,797	4,074,091	7,254,486	31,521,004
Non-current liabilities . . . . .	472,499	775,785	847,336	2,439,668	4,701,917	3,752,541	743,154	21,700,622
<i>Non-current net assets</i> . . . . .	12,372,035	2,042,847	3,567,807	11,427,847	8,427,880	321,550	6,511,332	9,820,382
<i>Net assets</i> . . . . .	17,255,695	2,533,386	7,014,880	17,911,769	9,980,223	1,502,772	7,906,049	15,698,360
<b>Accumulated non-controlling interests<sup>(i)</sup></b> . . . . .	<b>8,143,373</b>	<b>1,109,028</b>	<b>3,392,926</b>	<b>8,596,724</b>	<b>4,852,558</b>	<b>712,967</b>	<b>4,183,245</b>	<b>9,620,400</b>

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

	As at 31 December 2017							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Current assets . . . . .	6,582,991	1,668,841	4,795,571	8,867,168	4,439,751	2,050,745	1,192,281	6,811,410
Current liabilities . . . . .	2,323,147	583,217	1,899,696	1,647,884	2,969,987	1,046,139	785,304	3,350,402
<i>Current net assets</i> . . . . .	4,259,844	1,085,624	2,895,875	7,219,284	1,469,764	1,004,606	406,977	3,461,008
Non-current assets . . . . .	13,181,539	2,832,730	4,418,245	14,656,409	13,611,878	4,356,819	7,154,587	33,499,880
Non-current liabilities . . . . .	703,953	854,018	983,466	2,716,243	5,798,158	4,016,225	700,939	23,052,842
<i>Non-current net assets</i> . . . . .	12,477,586	1,978,712	3,434,779	11,940,166	7,813,720	340,594	6,453,648	10,447,038
<i>Net assets</i> . . . . .	16,737,430	3,064,336	6,330,654	19,159,450	9,283,484	1,345,200	6,860,625	13,908,046
<b>Accumulated non-controlling interests<sup>(i)</sup></b> . . . . .	<b>7,898,003</b>	<b>1,393,102</b>	<b>3,027,742</b>	<b>9,003,506</b>	<b>4,419,052</b>	<b>631,311</b>	<b>3,645,208</b>	<b>8,555,340</b>

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Summarised statement of comprehensive income

	For the year ended 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Revenue .....	7,628,470	5,249,864	7,859,468	11,383,526	8,766,320	6,302,650	3,859,836	12,263,159
<b>Net income for the year</b> .....	<b>2,413,978</b>	<b>3,045,453</b>	<b>2,944,221</b>	<b>2,859,182</b>	<b>1,965,479</b>	<b>130,862</b>	<b>1,738,438</b>	<b>1,702,248</b>
Other comprehensive income .....	73,037	55,640	124,006	93,484	67,696	53,508	140,320	88,645
<b>Total comprehensive income</b> .....	<b>2,487,015</b>	<b>3,101,093</b>	<b>3,068,227</b>	<b>2,952,666</b>	<b>2,033,175</b>	<b>184,370</b>	<b>1,878,758</b>	<b>1,790,893</b>
Net income attributable to non-controlling interests ..	1,156,336	1,360,836	1,304,256	1,406,008	946,798	67,784	874,950	1,007,816
Dividends to non-controlling interests .....	946,063	1,938,503	1,424,437	2,131,029	696,144	—	475,083	—
	For the year ended 31 December 2017							
Revenue .....	7,220,906	3,631,472	7,510,101	10,066,000	7,910,236	5,704,262	2,759,455	9,983,926
<b>Net income for the year</b> .....	<b>2,376,365</b>	<b>1,778,390</b>	<b>2,993,537</b>	<b>2,735,429</b>	<b>1,604,213</b>	<b>(608,807)</b>	<b>878,628</b>	<b>668,174</b>
Other comprehensive income .....	(6,978)	(1,699)	7,378	(5,814)	(2,219)	1,088	44,113	(11,473)
<b>Total comprehensive income</b> .....	<b>2,369,387</b>	<b>1,776,691</b>	<b>3,000,915</b>	<b>2,729,615</b>	<b>1,601,994</b>	<b>(607,719)</b>	<b>922,741</b>	<b>656,701</b>
Net income attributable to non-controlling interests ..	996,942	787,865	1,496,174	1,150,915	856,623	(316,182)	429,438	352,992
Dividends to non-controlling interests .....	793,083	1,080,100	1,996,505	814,688	540,229	—	415,698	—

Net income (loss) attributable to non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

Summarised statement of cash flows

	Year ended 31 December 2018							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
Cash flow from operating activities .....	3,928,161	3,202,785	2,881,894	3,966,259	2,553,916	526,637	2,083,578	3,432,919
Cash flow from investing activities .....	(1,857,714)	(294,522)	(547,071)	(408,623)	(310,722)	(86)	(802,588)	(2,115,782)
Cash flow from financing activities .....	(3,096,501)	(1,558,860)	(1,711,058)	(4,341,786)	(2,935,188)	(210,573)	(833,080)	(1,454,539)
Net increase / (decrease) in cash and cash equivalents .....	(1,026,054)	1,349,403	623,765	(784,150)	(691,994)	315,978	447,910	(137,402)

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Year ended 31 December 2017							
Cash flow from operating activities . . . . .	3,235,901	2,110,365	3,900,893	3,325,029	2,051,289	432,166	1,395,787	3,592,324
Cash flow from investing activities . . . . .	(716,755)	(303,434)	(314,653)	(425,839)	(863,816)	(291,734)	(703,277)	(905,316)
Cash flow from financing activities . . . . .	(3,143,125)	(1,873,585)	(3,777,386)	(1,779,483)	(1,604,184)	(160,972)	(732,898)	(1,560,010)
Net increase / (decrease) in cash and cash equivalents . . . . .	<u>(623,979)</u>	<u>(66,654)</u>	<u>(191,146)</u>	<u>1,119,707</u>	<u>(416,711)</u>	<u>(20,540)</u>	<u>(40,388)</u>	<u>1,126,998</u>

**22 Debt**

	Interest rate	31 December 2018	31 December 2017
<b>Current</b>			
Shot-term bank borrowings . . . . .	USD LIBOR variable rate	<u>1,167,589</u>	<u>1,065,000</u>
Current portion of long-term debt . . . . .	SAIBOR and USD LIBOR	<u>3,664,754</u>	8,535,254
Obligations under finance leases (Note 37) . . . . .	5.7% to 9.6%	<u>85,502</u>	93,301
Bonds . . . . .	2.63%	—	3,744,901
Notes . . . . .	SAIBOR variable rate	—	<u>3,000,000</u>
Total current loans and borrowings . . . . .		<u>3,750,256</u>	<u>15,373,456</u>
<b>Non-current</b>			
Long-term debt . . . . .	SAIBOR and USD LIBOR	<u>31,058,023</u>	35,500,304
Obligations under finance leases (Note 37) . . . . .	5.7% to 9.6%	<u>653,423</u>	771,712
Notes . . . . .	SAIBOR variable rate	—	2,000,000
Bonds . . . . .	2.75%	<u>10,633,950</u>	3,352,716
		<u>42,345,396</u>	<u>41,624,732</u>
<b>Total debt</b> . . . . .		<u>47,263,241</u>	<u>58,063,188</u>

Long-term debt

The Group obtained commercial loans from various financial institutions in order to finance its expansions, new projects and acquisitions, which are repayable in instalments at varying interest rates in conformity with the applicable loan agreements.

The Public Investment Fund (PIF) and Saudi Industrial Development Fund (SIDF) term loans are generally repayable in semi-annual instalments and financing charges on these loans are at varying rates.

Bonds

The following bonds were outstanding as of 31 December 2018:

- In October 2018, SABIC Capital II BV, an indirect wholly owned subsidiary of SABIC, issued a 5 year and 10 year USD 1 billion bond each, equivalent to total SR 7.5 billion. These bonds are unsecured and carry coupon rates of 4% and 4.5% for those maturing in 5 and 10 years, respectively. The bonds are

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

issued in accordance with Rule 144A/Reg S offering requirements under the U.S. Securities Act of 1933, as amended. The bonds are listed on the Irish Stock Exchange (Euronext Dublin) and the proceeds have been used for refinancing recently maturing debt.

- On 20 November 2013, SABIC Capital I B.V. issued a 7 year € 0.75 billion bond with a coupon of 2.75%. The proceeds were used to redeem Eurobond € 0.75 billion.

Notes

On 29 December 2009, the Group entered into an agreement with PIF for a private placement of unsecured Saudi Riyal notes amounting to SR10 billion with multiple tranches. These notes are fully drawn and have a bullet maturity after 7 years of their respective issuance. As at 31 December 2018, all outstanding notes were all fully repaid.

The aggregate repayment schedule of long-term debt is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Within one year .....	<b>4,832,343</b>	16,345,155
1-2 years .....	<b>7,388,859</b>	6,676,568
2-5 years .....	<b>25,510,327</b>	26,970,381
Thereafter .....	<b>8,792,787</b>	7,206,071
Lease obligation (Note 37) .....	<b>738,925</b>	865,013
Total .....	<b><u>47,263,241</u></b>	<u>58,063,188</u>

**23 Employee benefits**

The provision for employee benefits can be broken down as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Defined benefit obligations</b>		
End of service benefits .....	<b>10,598,972</b>	12,846,175
Defined benefits pension schemes .....	<b>2,226,295</b>	2,690,085
Post-retirement medical benefits .....	<b>1,154,575</b>	1,038,172
	<b><u>13,979,842</u></b>	<u>16,574,432</u>
<b>Other long term employee benefits and termination benefits</b>		
Early retirement plans .....	<b>37,311</b>	49,937
Long-term service awards .....	<b>125,340</b>	155,227
Others .....	<b>857,532</b>	855,440
	<b><u>1,020,183</u></b>	<u>1,060,604</u>
	<b><u>15,000,025</u></b>	<u>17,635,036</u>

Management monitors the risks of all pension plans of the Group and issues guidelines regarding the governance and risk management of pension plans, particularly with regard to the funding of the pension plans and the portfolio structure of the existing plan assets. The obligations and the plan assets used to fund the obligations are subject to demographic, legal and economic risks. Economic risks are primarily due to unforeseen developments in goods and capital markets. Measures were taken to close plans with defined benefits for future service. This led to a reduction in risk with regard to future benefit levels.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Defined benefits obligation**

The Group provides end of service and pension benefits to its employees taking into consideration the local labour laws, employment market and tax laws of the countries where the companies are located. Outside KSA, the Group limits the risks of changing financial market conditions and demographic developments by offering defined contribution pensions to new-hires in most countries. As in recent years, when many of the defined benefit plans have been closed to future benefit accrual, the US and Canadian plan will be closed for future pension accrual from 31 December 2019.

End of service benefits

End of service benefits are mandatory for all KSA based employees under the Saudi Arabian labour law and the Group's employment policies. End of service benefit is based on employees' compensation and accumulated period of service and is payable upon termination, resignation or retirement. The Defined Benefit Obligation ("DBO") in respect of employees' end of service benefits is calculated by estimating the future benefit payment that employees have earned in return for their service. This amount using an appropriate discount rate to determine the present value of the Group's obligation. This is an unfunded plan.

Re-measurements are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to consolidated statement of income in subsequent periods.

Defined benefit pension plans

The Group has a number of defined benefit pension plans outside KSA. The most significant plans are located in the United States of America ("USA") and in the United Kingdom ("UK"). These plans are funded pension plans. Other pension plans include plans in Germany, Austria, Japan, Taiwan, Canada, France and Belgium, most of which are funded. The benefits provided by these pension plans are based primarily on years of service and employees' compensation.

The funding of the plans is consistent with local requirements in the countries of establishment. Generally, pension obligations are subject to a government regulation, including minimum funding requirements in many countries. Furthermore, there are restrictions in qualitative and quantitative terms for the investment in different asset categories. This could result in fluctuating employer contributions, financing requirements and the assumption of obligations in favour of the pension fund to comply with the regulatory requirements.

Below is a brief description of the Group's main defined benefit pension plans:

*United States of America*

In the USA, the Group offers a defined benefit pension plan. This plan is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The funding policy for the US Plans is to make regular contributions each year in such amounts that are necessary to meet or exceed the minimum funding standard as set forth in employee benefit and tax laws in USA. As of 1 January 2014, the US Plan was closed for new participants. Employees who were already participants in the US plan as of 31 December 2013 continue to accrue benefits until 31 December 2019. As per 1 January 2020, the plan will be frozen and employee will participate in alternative defined contribution arrangements. The primary contributors to the total change in liabilities was a one-off adjustment linked to the decision to freeze future accruals. The gain is recognized as part service cost.

These defined benefit pension plans are administered by fiduciaries, who represents the interests of the beneficiaries and ensure that the benefits can be paid in the future.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

*United Kingdom*

Group companies maintain final salary pension plans in UK which have been closed to further increases in benefits for future years of service. A part of the workforce still receives benefit increases linked to salary increases. Since the closure of service accrual, all employees have had the opportunity to participate in a defined contribution plan.

The defined benefit pension plans are administered by trusts, whose Boards of Trustees, according to the trustees' agreement and law, represents the interests of the beneficiaries and ensures that the benefits can be paid in the future. The required funding is determined using technical valuations according to local regulations every three years. Pensions are adjusted each year to compensate for increases in the cost of living.

**Other long-term employee benefits**

Early retirement plans

Employee early retirement plan costs are provided for in accordance with the Group's policies. If an instalment based compensation is agreed on, the obligation is initially discounted to its present value and then unwound through the period of compensation which can be up to the regular retirement age of the employee.

Long-term service awards

The Group offers a long-term service award depending on years of service. This is measured similarly to a DBO, however, any re-measurement is recognised in the current year consolidated statement of income.

The following table represents the movement of the net pension position:

	For the year ended 31 December 2018	For the year ended 31 December 2017
At the beginning of the year . . . . .	16,551,957	15,596,799
Current service cost . . . . .	1,489,315	1,290,975
Past service cost . . . . .	(283,821)	44,175
Finance cost, net of finance income . . . . .	557,467	581,024
Actuarial changes arising due to:		
—financial assumptions . . . . .	(1,863,573)	(21,966)
—demographic changes . . . . .	(101,639)	(37,125)
—experience adjustments . . . . .	(404,933)	95,005
—actual return on plan assets . . . . .	222,252	(249,147)
	(2,147,893)	(213,233)
Payments during the year . . . . .	(1,980,715)	(627,038)
Contributions into pension plans . . . . .	(308,526)	(313,995)
Foreign currency translation adjustment and others . . . . .	72,551	193,250
	13,950,335	16,551,957
Reclassification as net pension asset . . . . .	29,507	22,475
At the end of the year . . . . .	<u>13,979,842</u>	<u>16,574,432</u>

For net pension, assets are presented under non-current assets.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Following table represents the components of the employee benefits in the KSA:

	For the year ended 31 December 2018		
	End of service	Post-retirement medical	Total
At the beginning of the year	12,846,175	589,463	13,435,638
Current service cost	849,404	425,964	1,275,368
Finance cost	443,941	20,195	464,136
Actuarial changes arising due to:			
—financial assumptions	(1,602,947)	17,104	(1,585,843)
—experience adjustments	(183,674)	(158,423)	(342,097)
	(1,786,621)	(141,319)	(1,927,940)
Payments during the year	(1,894,134)	(52,602)	(1,946,736)
Others	140,207	(14,441)	125,766
At the end of the year	10,598,972	827,260	11,426,232
	For the year ended 31 December 2017		
	End of service	Post-retirement medical	Total
At the beginning of the year	12,046,025	277,738	12,323,763
Current service cost	1,043,387	23,496	1,066,883
Finance cost	464,664	9,776	474,440
Actuarial changes arising due to:			
—financial assumptions	(82,200)	35,772	(46,428)
—experience adjustments	(78,379)	254,453	176,074
	(160,579)	290,225	129,646
Payments during the year	(561,757)	(14,351)	(576,108)
Others	14,435	2,579	17,014
At the end of the year	12,846,175	589,463	13,435,638

Following table represents the components of the DBO outside KSA at 31 December 2018:

	For the year ended 31 December 2018			
	USA	UK	Others	Total
At the beginning of the year	3,227,844	2,850,210	946,352	7,024,406
Current service costs	191,740	—	22,207	213,947
Past service costs	(275,757)	716	(8,780)	(283,821)
Finance costs	116,607	73,036	21,942	211,585
Benefits paid	(168,006)	(149,753)	(30,092)	(347,851)
Actuarial changes arising due to:				
—financial assumptions	(247,148)	(14,921)	(15,661)	(277,730)
—demographic changes	(10,559)	(87,670)	(3,410)	(101,639)
—experience adjustments	(67,629)	6,324	(1,531)	(62,836)
	(325,336)	(96,267)	(20,602)	(442,205)
Foreign currency	—	(161,838)	(49,087)	(210,925)
	2,767,092	2,516,104	881,940	6,165,136
Reclassification as net pension asset	—	—	(198,271)	(198,271)
At the end of the year	2,767,092	2,516,104	683,669	5,966,865

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The development of plan assets for major plans in the different regions is elaborated in the next table:

	For the year ended 31 December 2018			
	USA	UK	Others	Total
Plan assets as at start of the year	1,463,419	2,165,539	279,129	3,908,087
Interest income	53,377	55,425	9,452	118,254
Employers' contribution	262,013	39,069	7,444	308,526
Return on plan assets (excluding interest income)	(136,807)	(75,375)	(10,070)	(222,252)
Benefits paid	(149,621)	(149,755)	(14,496)	(313,872)
Administrative expenses	(13,516)	—	(510)	(14,026)
Foreign currency	—	(123,030)	(20,654)	(143,684)
Plan assets as at end of the year	1,478,865	1,911,873	250,295	3,641,033
Reclassification as net pension assets	—	—	(227,778)	(227,778)
Plan assets at end of the year	1,478,865	1,911,873	22,517	3,413,255
Defined benefit obligation, net	1,288,227	604,231	661,152	2,553,610

Following table represents the components of the DBO outside the KSA at 31 December 2017:

	For the year ended 31 December 2017			
	USA	UK	Others	Total
At the beginning of the year	3,040,708	2,835,871	854,189	6,730,768
Current service costs	200,498	—	23,594	224,092
Past service costs	18,307	12,960	12,908	44,175
Finance costs	119,284	79,250	20,814	219,348
Benefits paid	(251,914)	(180,253)	(35,019)	(467,186)
Participants' contributions	—	—	211	211
Actuarial changes arising due to:				
—financial assumptions	208,541	(156,096)	(27,983)	24,462
—demographic changes	(37,064)	—	(61)	(37,125)
—experience adjustments	(70,516)	—	(10,553)	(81,069)
Foreign currency	100,961	(156,096)	(38,597)	(93,732)
	—	258,478	108,252	366,730
	3,227,844	2,850,210	946,352	7,024,406
Reclassification as net pension asset	—	—	(235,349)	(235,349)
At the end of the year	3,227,844	2,850,210	711,003	6,789,057



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Major economic and actuarial assumptions used in benefits liabilities computation:

	31 December 2018		
	KSA	USA	UK
Discount rate .....	4.40%	4.16%	2.90%
Average salary increase .....	5.50% to 7.00%	3.22%	3.21%
Pension in payment increase .....	N/A	N/A	3.25%
	<b>9% in 2019 decrease to 5% for 2023+</b>		
Inflation rate (health care cost) .....	<b>for 2023+</b>	N/A	N/A
	31 December 2017		
	KSA	USA	UK
Discount rate .....	3.60%	3.70%	2.70%
Average salary increase .....	5.00% to 7.00%	3.28%	2.76%
Pension in payment increase .....	N/A	N/A	3.15%
	<b>10% in 2018 decrease to 5% for 2023+</b>		
Inflation rate (health care cost) .....	<b>for 2023+</b>	N/A	N/A

**Sensitivity analysis**

The table below illustrates the approximate impact on the DBO if the Group were to change one key assumption, while the other actuarial assumptions remain unchanged. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in key actuarial assumptions may have on the total DBO. The sensitivities only apply to the DBO and not to the net amounts recognised in the statement of financial position. Movements in the fair value of plan assets would, to a certain extent, be expected to offset movements in the DBO resulting from changes in the given assumptions.

	31 December 2018			
	KSA	USA	UK	Others
<b><i>Increase</i></b>				
Discount rate (+25 bps) .....	<b>(287,462)</b>	<b>(104,965)</b>	(129,394)	(33,532)
Salary (+25 bps) .....	<b>278,079</b>	<b>133</b>	30,668	7,745
Pension (+25 bps) .....	NA	—	94,662	17,641
Longevity (+1 year) .....	NA	<b>38,245</b>	71,718	(14,807)
Health care costs (+25 bps) .....	<b>23,010</b>	NA	NA	NA
<b><i>Decrease</i></b>				
Discount rate (-25 bps) .....	<b>299,478</b>	<b>111,092</b>	138,607	35,715
Salary (-25 bps) .....	<b>(268,468)</b>	<b>(131)</b>	(29,895)	(7,358)
Pension (-25 bps) .....	NA	—	(89,594)	(16,685)
Longevity (-1 year) .....	NA	<b>(39,562)</b>	(71,355)	14,511
Health care costs (-25 bps) .....	<b>(21,991)</b>	NA	NA	NA

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	31 December 2017			
	KSA	USA	UK	Others
<b><i>Increase</i></b>				
Discount rate (+25 bps) .....	(362,579)	(138,858)	(150,558)	(36,689)
Salary (+25 bps) .....	313,884	16,841	34,170	9,370
Pension (+25 bps) .....	NA	—	112,018	NA
Longevity (+1 year) .....	NA	42,608	80,372	NA
Health care costs (+25 bps) .....	21,255	NA	NA	NA
<b><i>Decrease</i></b>				
Discount rate (-25 bps) .....	338,388	147,656	162,140	39,109
Salary (-25 bps) .....	(341,056)	(16,546)	(33,309)	(15,291)
Pension (-25 bps) .....	NA	—	(105,766)	NA
Longevity (-1 year) .....	NA	(44,040)	(79,939)	NA
Health care costs (-25 bps) .....	(20,268)	NA	NA	NA

***Expected total benefit payments***

	31 December 2018	
	KSA	Outside KSA
Within one year .....	<b>591,513</b>	<b>317,973</b>
1 – 2 years .....	<b>585,755</b>	<b>339,374</b>
2 – 3 years .....	<b>644,072</b>	<b>352,686</b>
3 – 4 years .....	<b>737,023</b>	<b>370,104</b>
4 – 5 years .....	<b>810,999</b>	<b>387,863</b>
Next 5 years .....	<b>5,229,918</b>	<b>2,067,327</b>
<b>Total</b> .....	<b>8,599,280</b>	<b>3,835,327</b>

	31 December 2017	
	KSA	Outside KSA
Within one year .....	720,507	371,901
1 – 2 years .....	665,140	397,270
2 – 3 years .....	741,461	419,623
3 – 4 years .....	839,591	444,219
4 – 5 years .....	901,619	472,071
Next 5 years .....	5,920,141	2,724,245
<b>Total</b> .....	<b>9,788,459</b>	<b>4,829,329</b>

Annual premiums paid to defined contribution schemes amount to SR 0.39 billion (2017: SR 0.33 billion) and relate primarily to defined contribution pension schemes in the Netherlands.

The expected employer contributions related to the defined benefit pension plans for next year amount to SR 0.15 billion (2017: SR 0.14 billion).

The weighted average duration of the defined benefit obligation is 10 years for KSA plans, 20 years for plans outside KSA (31 December 2017: 12 years for KSA plans, 20 years for plans outside KSA).

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**24 Trade payables**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Trade accounts payable . . . . .	<b>14,938,392</b>	17,886,738
Amounts due to related parties . . . . .	<b>30,965</b>	174,726
	<b>14,969,357</b>	18,061,464

The Group's exposure to currency and liquidity risk related to accounts payables is disclosed in Note 36.

**25 Accruals and other current liabilities**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Accrued liabilities . . . . .	<b>6,250,270</b>	5,087,426
Employees related liabilities . . . . .	<b>2,461,530</b>	1,904,510
Dividend payable . . . . .	<b>2,773,681</b>	1,633,220
Sales and other tax payables . . . . .	<b>401,584</b>	303,879
Contract retentions . . . . .	<b>112,201</b>	227,109
Others . . . . .	<b>1,017,618</b>	968,102
	<b>13,016,884</b>	10,124,246

**26 Derivatives**

	<b>31 December 2018</b>	<b>31 December 2017</b>
<i>Derivative asset:</i>		
<i>Not designated in hedging relationship</i>		
—Foreign exchange forward contracts . . . . .	<b>29,651</b>	2,828
—Interest rate collar derivatives – current <sup>(i)</sup> . . . . .	—	3,472
—Interest rate collar derivatives – non-current <sup>(i)</sup> . . . . .	—	20,506
Total financial derivatives . . . . .	<b>29,651</b>	26,806
Notional amount . . . . .	<b>615,342</b>	1,070,622

	<b>31 December 2018</b>	<b>31 December 2017</b>
<i>Derivative liability:</i>		
<i>Not designated in hedging relationship</i>		
—Foreign exchange forward contracts . . . . .	<b>381</b>	—
—Interest rate swap agreements—current . . . . .	—	14,258
—Interest rate swap agreements—non-current . . . . .	—	1,978
Total financial derivatives . . . . .	<b>381</b>	16,236
Notional amount . . . . .	<b>291,967</b>	716,645

(i) On adoption of IFRS 9, these derivatives have been combined with host contracts.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**27 Revenue**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Sales of goods .....	<b>164,896,782</b>	149,242,828
Logistic services .....	<b>3,518,301</b>	—
Rendering of services .....	<b>713,256</b>	523,140
	<u><b>169,128,339</b></u>	<u>149,765,968</u>

There is no significant revenue that has been recognised in 2018 from performance obligations satisfied in previous years. All unfulfilled remaining performance obligations as at 31 December 2018 are expected to be satisfied in the following year.

Refer to Note 35 for the segment and geographical distribution of revenue.

Contract balances

Payment terms are immediate to a maximum of 120 days from the date of invoice. Date of invoice is usually prior to, or at the time of fulfilling the related performance obligations. Consequently, the Groups holds no material contract assets and recognises contract liabilities when amounts are invoiced prior to fulfilment of performance obligations.

There are no significant changes of contract assets or contract liability balances during the year. The Group recognises all incremental costs of obtaining contracts as an expense when incurred as the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Comparative information

The comparative information is not presented for the current year disclosures as the Group has adopted IFRS 15 using the modified retrospective method (Note 4).

**28 Expenses**

Based on the nature of the expenses, cost of sales, selling and distribution expenses and general and administrative expenses include the following:

**28.1 Cost of sales**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Changes in inventories of finished products, raw materials and consumables used .....	<b>83,322,735</b>	72,029,578
Employee related costs .....	<b>13,294,298</b>	12,178,000
Depreciation of plant and equipment .....	<b>13,903,349</b>	13,268,321
Impairment and write down of plant and equipment .....	<b>470,183</b>	1,563,603
Amortisation of intangible assets .....	<b>529,906</b>	818,741
	<u><b>111,520,471</b></u>	<u>99,858,243</u>



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**28.2 General and administrative expenses**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Employee related <sup>(i)</sup> . . . . .	5,923,083	5,488,822
Research and technology cost . . . . .	1,163,468	1,130,223
Professional and other consultant services . . . . .	1,834,609	1,666,168
Administrative support . . . . .	514,064	572,642
Depreciation and amortisation . . . . .	643,089	684,394
Maintenance . . . . .	288,079	242,453
Others . . . . .	578,515	785,099
	<u>10,944,907</u>	<u>10,569,801</u>

**28.3 Selling and distribution expenses**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Transportation and shipping . . . . .	7,995,009	7,810,112
Employee related <sup>(i)</sup> . . . . .	1,578,477	1,438,797
Rental and lease expenses . . . . .	389,374	586,197
Marketing expenses . . . . .	153,468	158,645
Depreciation . . . . .	59,737	74,328
Others . . . . .	223,872	271,458
	<u>10,399,937</u>	<u>10,339,537</u>

(i) As a result of a strategic workforce optimization initiative in the first quarter of 2018, the Group has recorded a non-recurring restructuring expense of SR 1.38 billion, which is mainly related to severance cost. This strategic initiative is expected to reduce the Group's cost base going forward.

**29 Finance cost**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Interest expense on loans and borrowings . . . . .	2,088,648	1,748,692
Interest expenses related to defined benefit plans (Note 23) . . . . .	557,467	581,024
	<u>2,646,115</u>	<u>2,329,716</u>

**30 Other (expenses) income, net**

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Dividend from investments in equity instruments at FVOCI . . . . .	61,631	44,364
Insurance claims . . . . .	147,216	279,973
Foreign currency exchange differences . . . . .	(193,489)	200,921
Rental income . . . . .	39,010	39,831
Loss on disposal of property, plant and equipment . . . . .	(179,700)	(88,512)
Others . . . . .	(281,079)	(187,240)
	<u>(406,411)</u>	<u>289,337</u>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**31 Zakat and income tax**

The movement in Group's zakat and income tax payable is as follows:

	For the year ended 31 December 2018		
	Zakat	Income Tax	Total
At the beginning of the year	2,619,140	1,056,100	3,675,240
Provided during the year	2,600,000	1,503,406	4,103,406
Paid during the year, net	(2,375,997)	(1,631,990)	(4,007,987)
Other movements (foreign currency translations and reclassification)	—	433,658	433,658
At the end of the year	<u>2,843,143</u>	<u>1,361,174</u>	<u>4,204,317</u>

	For the year ended 31 December 2017		
	Zakat	Income Tax	Total
At the beginning of the year	2,386,336	447,246	2,833,582
Provided during the year	2,600,000	1,466,329	4,066,329
Paid during the year, net	(2,367,196)	(855,710)	(3,222,906)
Other movements	—	(1,765)	(1,765)
At the end of the year	<u>2,619,140</u>	<u>1,056,100</u>	<u>3,675,240</u>

The movement in Group's deferred tax is as follows:

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
At the beginning of the year	1,518,599	2,597,059	678,221	1,858,820
Changes during the year <sup>(i)</sup>	(653,443)	(932,921)	(4,238)	(106,377)
At the end of the year	<u>865,156</u>	<u>1,664,138</u>	<u>673,983</u>	<u>1,752,443</u>

(i) Includes impact of foreign exchanges translation and non-controlling interests

**31.1 Zakat**

Zakat returns of SABIC and wholly owned subsidiaries are submitted to the General Authority of Zakat and Tax ("GAZT") based on separate financial statements prepared for zakat purposes only. Other non-wholly owned subsidiaries file their zakat returns separately. SABIC has filed its zakat returns with GAZT, received the zakat certificates, settled the zakat dues for the year ended 31 December 2017 and cleared its zakat assessments with GAZT up to the year ended 31 December 2016.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**31.2 Income Tax**

The major components of income tax in the consolidated statement of income can be broken down as follows for the year ended 31 December:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
<b><i>Current corporate income tax</i></b>		
Current year .....	<b>1,503,406</b>	1,466,329
Adjustments in respect of current income tax of previous year . . .	—	—
<b><i>Deferred corporate income tax</i></b>		
(Decrease) increase in deferred tax, net .....	<u>(305,745)</u>	<u>73,671</u>
Total income tax expense reported in the consolidated statement of income	<u><b>1,197,661</b></u>	<u><b>1,540,000</b></u>
	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
<b><i>Deferred tax related to items recognised in OCI during in the year</i></b>		
—Deferred tax expense on actuarial gains and losses .....	<u>5,204</u>	<u>61,349</u>
<b><i>Deferred tax charged to OCI</i></b> .....	<u><b>5,204</b></u>	<u><b>61,349</b></u>

The numerical reconciliation of income tax expense derived from the accounting profit is presented in the table below:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Income before zakat and income tax .....	<b>35,683,068</b>	29,624,745
Exclude: income subject to Zakat .....	<u>(27,830,507)</u>	<u>(23,521,746)</u>
Income subject to income tax .....	<b>7,852,561</b>	6,102,999
<b>Domestic income tax rate (KSA)</b> .....	<u><b>20%</b></u>	<u>20%</u>
<b>Income tax at domestic tax rate</b> .....	<u><b>1,570,512</b></u>	<u>1,220,600</u>
<b>Tax effects of</b>		
—Current year tax benefits not recognised .....	<b>342,686</b>	498,436
—Foreign currency translation results .....	<b>(405,308)</b>	433,424
—Deviating rates .....	<b>(26,800)</b>	280,638
—Tax rate change .....	<b>(94,415)</b>	(118,201)
—Tax charge due to other liabilities .....	<b>183,229</b>	12,739
—Return-to-provision true-ups and exempt items .....	<b>(566,923)</b>	(74,551)
—Non-tax deductible expenses .....	<b>198,135</b>	62,667
—Recognition of previously unrecognised tax benefits .....	<b>(81,560)</b>	(818,022)
—Withholding tax .....	<b>67,998</b>	30,120
—State, local and other taxes .....	<u><b>10,107</b></u>	<u>12,150</u>
<b>Income tax expense</b> .....	<u><b>1,197,661</b></u>	<u>1,540,000</u>
<b>Zakat expense</b> .....	<u><b>2,600,000</b></u>	<u>2,600,000</u>
<b>Total income tax and zakat expense</b> .....	<u><u><b>3,797,661</b></u></u>	<u><u>4,140,000</u></u>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Components of deferred tax are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Difference in accounting and tax base related to:</i>		
—Tangible and intangible assets .....	<b>(3,466,676)</b>	(3,200,976)
—Inventories .....	<b>(29,120)</b>	(27,413)
—Reserves .....	<b>(204,670)</b>	(195,011)
—Others .....	<b>(23,997)</b>	(27,011)
<b>Deferred tax liabilities</b> .....	<b>(3,724,463)</b>	(3,450,411)
Set-off with deferred tax assets .....	<b>2,060,325</b>	1,697,968
<b>Net deferred tax liabilities</b> .....	<b>(1,664,138)</b>	(1,752,443)
Net operating losses .....	<b>7,279,239</b>	6,824,447
<i>Difference in accounting and tax base related to:</i>		
—Tangible and intangible assets .....	<b>445,332</b>	320,871
—Employee benefits .....	<b>583,956</b>	967,003
—Deferred charges .....	<b>10,912</b>	164,163
—Provisions on receivables and inventories .....	<b>355,480</b>	286,524
—Tax credits .....	<b>145,754</b>	151,241
—Others .....	<b>76,571</b>	41,512
<b>Deferred tax assets</b> .....	<b>8,897,244</b>	8,755,761
Un-recognised deferred tax assets .....	<b>(5,971,763)</b>	(6,383,810)
Set-off with deferred tax liabilities .....	<b>(2,060,325)</b>	(1,697,968)
<b>Net deferred tax assets</b> .....	<b>865,156</b>	673,983

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred to income taxes levied by the same tax authority.

The Group has tax losses of SR 27.74 billion (2017: SR 25.25 billion) with carry-forward periods ranging from 2021 to indefinite, which are available for offsetting against future taxable profits of companies in which the losses arose.

### 32 Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the (Parent) by the weighted average number of ordinary shares during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the (Parent) 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 conversion of all the dilutive potential ordinary shares into ordinary shares.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Income from operations (SR '000) . . . . .	<u>36,263,024</u>	28,998,387
Net income attributable to equity holders of the Parent (SR '000) . . . . .	<u>21,520,678</u>	18,430,236
Weighted average number of ordinary shares ('000) . . . . .	<u>3,000,000</u>	3,000,000
Earnings per share from income from operations (SR) . . . . .	<u>12.09</u>	9.67
Earnings per share from net income attributable to equity holders of the Parent (SR) . . . . .	<u>7.17</u>	6.14

There has been no item of dilution affecting the weighted average number of ordinary shares.

**33 Conventional and non-conventional financing and investments**

The tables below outline the breakdown of Group's financing and investments into conventional and non-conventional:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b><i>Cash and bank balances</i></b>		
—Conventional call (excluding Fixed term deposits) . . . . .	<u>11,221,338</u>	12,485,139
—Conventional time deposits . . . . .	<u>3,556,550</u>	4,318,927
Conventional cash and bank balances . . . . .	<u>14,777,888</u>	16,804,066
—Murabaha (including fixed term deposits) . . . . .	<u>25,881,062</u>	40,153,002
—Current accounts (excluding fixed term deposits) . . . . .	<u>1,931,870</u>	2,081,588
Non-conventional cash and bank balances . . . . .	<u>27,812,932</u>	42,234,590
<b>Total cash and bank balances</b> . . . . .	<u>42,590,820</u>	59,038,656
<b><i>Short-term and investments in debt instruments</i></b>		
—Bonds and floating rate notes . . . . .	<u>556,151</u>	543,750
—Conventional time deposits . . . . .	<u>478,075</u>	123,963
<b>Conventional short-term and investments in debt instruments</b> . . . . .	<u>1,034,226</u>	667,713
—Murabaha (including fixed time deposits) . . . . .	<u>8,762,214</u>	3,836,790
—SUKUK . . . . .	<u>1,861,143</u>	2,264,140
—Murabaha structured deposits . . . . .	<u>651,796</u>	637,590
Non-Conventional short-term and investments in debt instruments . . . . .	<u>11,275,153</u>	6,738,520
<b>Total short-term and investments in debt instruments</b> . . . . .	<u>12,309,379</u>	7,406,233
<b><i>Investments in equity instruments at FVOCI</i></b>		
—Mutual funds . . . . .	<u>305,294</u>	299,407
—Equity investments . . . . .	<u>784,815</u>	396,836
Conventional investments in equity instruments at FVOCI . . . . .	<u>1,090,109</u>	696,243
<b>Total Investments in equity instruments at FVOCI</b> . . . . .	<u>1,090,109</u>	696,243

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Short-term borrowings</i>		
—Conventional short-term borrowings .....	1,167,589	1,065,000
<b>Total short-term borrowings</b> .....	<b>1,167,589</b>	<b>1,065,000</b>
<i>Long and short-term debt</i>		
—Conventional loans .....	11,796,848	24,071,844
—Bonds/notes .....	10,633,950	12,097,616
—Finance leases .....	738,925	865,013
Conventional long-term debt .....	<b>23,169,723</b>	<b>37,034,473</b>
—Ijarah facilities .....	4,761,727	5,073,886
—SIDF .....	1,678,192	2,012,726
—Murabaha .....	16,486,010	12,877,103
Non-conventional long-term debt .....	<b>22,925,929</b>	<b>19,963,715</b>
<b>Total long-term debt</b> .....	<b>46,095,652</b>	<b>56,998,188</b>
<b>Total debt</b> .....	<b>47,263,241</b>	<b>58,063,188</b>
	<u>For the year ended</u>	<u>For the year ended</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Borrowing cost capitalised during the year:</i>		
—Conventional loans .....	23,568	75,867
Borrowing costs capitalised from conventional loans .....	<b>23,568</b>	<b>75,867</b>
—Murabaha loans and SIDF .....	15,151	102,482
Borrowing costs capitalised from non-conventional loans .....	<b>15,151</b>	<b>102,482</b>
<b>Total borrowing cost capitalised during the year</b> .....	<b>38,719</b>	<b>178,349</b>
	<u>For the year ended</u>	<u>For the year ended</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Finance income</i>		
—Conventional call account .....	3,555	3,838
—Conventional time deposits .....	187,680	74,574
—Conventional structured deposits .....	28,513	31,244
—Derivatives .....	(11,577)	54,064
—Others .....	76,484	24,665
Total conventional finance income .....	<b>284,655</b>	<b>188,385</b>
—Current Murabaha (including fixed term deposits) .....	1,035,951	949,056
—SUKUK .....	82,571	98,980
—Murabaha structured deposits .....	19,543	10,636
Total non-conventional finance income .....	<b>1,138,065</b>	<b>1,058,672</b>
<b>Total finance income</b> .....	<b>1,422,720</b>	<b>1,247,057</b>
<i>Finance cost</i>		
—Conventional loans .....	695,355	669,872
—Conventional loans—(related party) .....	108,158	—
—Bonds/notes .....	359,675	383,987
—Finance leases .....	61,025	91,889
—Derivative liabilities .....	—	10,797

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the year ended 31 December 2018	For the year ended 31 December 2017
—Net interest on employee benefits .....	557,467	581,024
—Others .....	146,795	124,759
Conventional finance cost .....	1,928,475	1,862,328
—SIDF .....	68,381	61,331
—Murabaha .....	575,235	117,286
—Ijarah facilities .....	—	288,771
—Others .....	74,024	—
Non-conventional financial expenses .....	717,640	467,388
<b>Total finance cost .....</b>	<b>2,646,115</b>	<b>2,329,716</b>

**34 Related party transactions and balances**

Interests in subsidiaries are set out in Note 41.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	For the year ended 31 December 2018		31 December 2018	
Associates .....	15,871	5,937,172	27,818	23,499
Joint ventures .....	14,300,850	1,229,386	3,098,870	24,025
			<b>31 December 2018</b>	
			Associates	Joint ventures
Loans from related parties .....			—	2,309,743
Loans to related parties .....			35,135	769,654
			<b>For the year ended 31 December 2018</b>	
			Associates	Joint ventures
Dividends paid to related parties .....			650,000	5,099,221
Dividends received from related parties .....			148,619	504,217
			<b>31 December 2017</b>	
			Associates	Joint ventures
Associates .....	8,881	5,285,739	201,453	157,464
Joint ventures .....	12,160,154	476,172	2,976,637	40,614
			<b>31 December 2017</b>	
			Associates	Joint ventures
Loans from related parties .....			—	2,491,245
Loans to related parties .....			62,135	752,715
			<b>For the year ended 31 December 2017</b>	
			Associates	Joint ventures
Dividends paid to related parties .....			250,000	4,262,696
Dividends received from related parties .....			92,175	271,931

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Terms and conditions of transactions with related parties**

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions and balances with the Saudi government are as follows:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Purchases of goods and services .....	<b>39,272,783</b>	31,612,060
Sales of goods and services .....	<b>7,135,370</b>	6,660,941
Due to entities controlled by Saudi government .....	<b>3,079,962</b>	1,618,469
Due from entities controlled by Saudi government .....	<b>705,569</b>	756,573

**Key management personnel compensation**

In addition to their remunerations to key management personnel, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration of key management is detailed as follows:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Short-term employee benefits .....	<b>70,040</b>	43,501
Post-employment benefits .....	<b>494</b>	452
Other long-term benefits .....	<b>8,727</b>	11,880
Total .....	<b><u>79,261</u></b>	<b><u>55,833</u></b>

**35 Segment information**

For management purposes, the Group is organised into three Strategic Business Units ("SBU") and Hadeed, a wholly-owned manufacturing business, which based on its products are grouped in three reporting segments.

The **Petrochemicals** SBU—products are produced from hydrocarbon feedstock including methane, ethane, propane, butane, and light naphtha, with a wide range of products including carbon dioxide, ethylene, methyl tert-butyl ether and other chemicals. During 2017, products related to polymers were merged into a single segment with chemical products. These included Polyethylene (PE) and Polypropylene (PP). The PE range includes all of the commodity thermo-polymers: Linear Low Density Polyethylene (LLDPE), Low Density Polyethylene (LDPE), and High Density Polyethylene (HDPE). The PP product range includes Random, Homopolymer, Copolymer and specialty automotive grades. Other key products include Polycarbonate (PC), Polyester, Polyvinylchloride (PVC), Polystyrene, and PP compounding and Stamax.

The **Specialties** SBU—includes polymer technologies, application development on a global scale, innovative process technologies, and environmentally responsible solutions in almost every area of modern life, from automotive, aviation and electronics to construction, alternative energy, and health care. The extensive product portfolio includes thermoplastic resins, specialty compounds, film and sheet products, and coatings. As the Specialties SBU does not meet the individual reporting requirements of IAS 8 'Segment Reporting' the SBU amounts are included as part of the Petrochemicals' reporting segment.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The **Agri-Nutrients** SBU—includes production of a range of fertilisers; including urea, ammonia, phosphate, as well as compound fertilisers.

**Hadeed** is concerned with production of steel products; long products (e.g. rebars) and flat products. The Executive Management Committee, chaired by the Chief Executive Officer monitors the results of its segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income statement and is measured consistently with profit or loss in the consolidated financial statements.

Based on management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment, in prior years, has been allocated over the Petrochemicals and Specialties, Agri-nutrients SBU's and Hadeed according to an internally agreed consistent basis. Accordingly, segment information for prior year are restated in line with current year presentation.

All intercompany transactions within the reporting segments have been appropriately eliminated. The segments' financial details are shown below:

	For the year ended 31 December 2018			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Revenue	150,422,057	7,938,052	10,768,230	169,128,339
Depreciation, amortisation, impairment and write down	(13,636,068)	(745,312)	(1,120,185)	(15,501,565)
Income from operations	33,708,253	2,262,772	291,999	36,263,024
Share of results of associates and joint ventures	702,718	347,132	—	1,049,850
Finance cost, net				(1,223,395)
Other expenses, net				(406,411)
Income before zakat and income tax				<u>35,683,068</u>

	For the year ended 31 December 2017			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Revenue	135,301,994	5,909,386	8,554,588	149,765,968
Depreciation, amortisation, impairment and write down	(14,244,571)	(722,828)	(1,443,574)	(16,410,973)
Income from operations	29,781,574	782,710	(1,565,897)	28,998,387
Share of results of associates and joint ventures	1,229,655	190,025	—	1,419,680
Finance cost, net				(1,082,659)
Other income, net				289,337
Income before zakat and income tax				<u>29,624,745</u>

	As at 31 December 2018			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets	284,711,898	13,963,504	21,035,472	319,710,874
Total liabilities	90,775,228	3,037,431	4,461,740	98,274,399

	As at 31 December 2017			
	Petrochemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets	286,050,389	13,143,050	22,417,367	321,610,806
Total liabilities	102,860,422	3,202,599	5,409,293	111,472,314

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Geographical distribution of revenue**

	31 December 2018		31 December 2017	
		%		%
KSA .....	<b>25,270,853</b>	<b>15%</b>	22,751,799	15%
China .....	<b>29,713,216</b>	<b>17%</b>	25,404,525	17%
Rest of Asia .....	<b>36,386,396</b>	<b>22%</b>	32,595,863	22%
Europe .....	<b>39,449,558</b>	<b>23%</b>	35,913,940	24%
Americas .....	<b>14,796,092</b>	<b>9%</b>	12,744,946	8%
Others <sup>(i)</sup> .....	<b>23,512,224</b>	<b>14%</b>	20,354,895	14%
	<b>169,128,339</b>	<b>100%</b>	149,765,968	100%

The revenue information above is based on the locations of the customers.

**Geographical distribution of property, plant and equipment**

	31 December 2018		31 December 2017	
		%		%
KSA .....	<b>138,563,584</b>	<b>85%</b>	143,163,921	86%
Europe <sup>(ii)</sup> .....	<b>13,948,735</b>	<b>8%</b>	15,086,965	9%
Americas <sup>(ii)</sup> .....	<b>9,759,324</b>	<b>6%</b>	7,383,489	4%
Asia <sup>(ii)</sup> .....	<b>1,545,226</b>	<b>1%</b>	1,718,893	1%
Others <sup>(ii)</sup> .....	<b>2,815</b>	—	2,643	—
	<b>163,819,684</b>	<b>100%</b>	167,355,911	100%

(i) Others includes sales made by certain subsidiaries to their foreign shareholders amounting to SR 14.32 billion (2017 SR 13.31 billion) and for which detailed geographical breakdown for final end consumer sales is not available with the Group.

(ii) Significant value of property, plant and equipment in Europe is concentrated in Netherlands, UK, Germany and Spain; in Americas is concentrated in USA and in Asia is concentrated in China and India. Others include countries in Africa and Oceania.

**36 Financial risk management**

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. Financial instruments principally include cash and bank balances, trade and other accounts receivable, derivative financial instruments, investments in securities, loans and advances, short term bank borrowings, accounts payable, accrued expenses, long term debt and other liabilities.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Also geographically there is no concentration of credit risk.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using an internal and external rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases, bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Investments

Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Guarantees

The Group monitors its risk to a shortage of funds using forecasting models to model impacts of operational activities on overall liquidity availability. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, the revolving credit facilities and other sources of liquidity.

Credit risk quality

31 December 2018								
<u>External Rating</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>	<u>A+</u>	<u>A</u>	<u>A-</u>	<u>Others</u>	<u>Carrying value in the statement of financial position</u>
Bank balances . . . . .	208,350	426,408	1,578,047	18,769,664	9,792,158	7,905,030	3,910,773	42,590,430
Investments in equity instruments at FVOCI . . . . .	—	—	—	305,294	—	—	784,815	1,090,109
Investments in debt instruments . . . . .	—	—	—	2,668,285	388,404	—	12,401	3,069,090
Short-term investments (excluding investments in debt instruments) . . . . .	375,000	—	—	2,660,318	2,350,990	212,500	3,641,481	9,240,289
Financial derivatives . . . . .	—	—	11,038	3,424	—	—	15,189	29,651
<b>Total . . . . .</b>	<b>583,350</b>	<b>426,408</b>	<b>1,589,085</b>	<b>24,406,985</b>	<b>12,531,552</b>	<b>8,117,530</b>	<b>8,364,659</b>	<b>56,019,569</b>
31 December 2017								
<u>External Rating</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>	<u>A+</u>	<u>A</u>	<u>A-</u>	<u>Others</u>	<u>Carrying value in the statement of financial position</u>
Bank balances . . . . .	74,190	80,236	4,032,418	24,702,761	8,399,650	18,872,720	2,876,268	59,038,243
Available for sale financial assets . . . . .	—	—	—	299,406	—	—	396,837	696,243
Held-to-maturity investments . . . . .	—	—	—	3,070,481	—	375,000	—	3,445,481
Short-term investments (excluding held-to-maturity investments) . . . . .	—	—	—	489,655	1,624,252	1,157,672	689,173	3,960,752
Financial derivatives . . . . .	—	22,498	1,013	2,920	326	—	49	26,806
<b>Total . . . . .</b>	<b>74,190</b>	<b>102,734</b>	<b>4,033,431</b>	<b>28,565,223</b>	<b>10,024,228</b>	<b>20,405,392</b>	<b>3,962,327</b>	<b>67,167,525</b>

The credit ratings above are based on credit ratings issued by globally accepted credit rating agencies.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains different lines of credit.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	31 December 2018			Total
	Within 1 year	Between 1-5 years	More than 5 years	
Debt .....	4,098,894	35,426,705	6,019,150	45,544,749
Short-term borrowings .....	1,167,589	—	—	1,167,589
Trade payable .....	14,969,357	—	—	14,969,357
Other liabilities .....	3,357,882	—	—	3,357,882
Derivatives .....	381	—	—	381
	<u>23,594,103</u>	<u>35,426,705</u>	<u>6,019,150</u>	<u>65,039,958</u>

	31 December 2017			Total
	Within 1 year	Between 1-5 years	More than 5 years	
Debt .....	15,599,125	33,152,024	9,078,533	57,829,682
Short-term borrowings .....	1,065,000	—	—	1,065,000
Trade payable .....	18,061,464	—	—	18,061,464
Other liabilities .....	2,230,384	—	—	2,230,384
Derivatives .....	1,978	14,258	—	16,236
	<u>36,957,951</u>	<u>33,166,282</u>	<u>9,078,533</u>	<u>79,202,766</u>

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in the consolidated statement of income.

**Equity price risk**

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as Investments in equity instruments at FVOCI. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as investments in equity instruments at FVOCI.

**Currency risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the fluctuations of the other currencies towards the SR. Foreign currency risk mainly arises from commercial transactions, investing and financing activities.

The Group's policy requires all subsidiaries to conduct a regular review of currency exposures, however the hedge decisions is delegated to Global Treasury, who manages the execution of all derivatives trading centrally. In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group is currently exposed to currency risk on balances including receivable against sales, payable to suppliers, placement with banks and borrowings that are denominated in a currency other than SR. The currencies in which these transactions are primarily denominated includes US Dollar (USD), Euro (EUR), British Pounds (GBP), Japanese Yen (JPY) and Chinese Yuan (CNY).

The currency risk on USD exposure is not considered significant by the Group as USD is pegged against SR.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the exchange rate of SR to foreign currencies, with all other variables held constant, of the Group's monetary assets and liabilities net of hedges entered into for the year ended 31 December:

	Gains (losses) through statement of income for the year ended	
	31 December 2018	31 December 2017
Increase in EUR/SR (10%) . . . . .	(72,031)	(277,522)
Increase in GBP/SR (10%) . . . . .	(70,056)	(116,404)
Increase in CNY/SR (10%) . . . . .	149,298	68,796
Increase in JPY/SR (10%) . . . . .	11,172	151,093
	18,383	(174,037)

Exposure to foreign currency risk at the end of the reporting year, was as follows (converted in SR '000):

	As at 31 December 2018			
	EUR	GBP	CNY	JPY
Cash and bank (including fixed term deposits) . . . . .	988,961	(892,503)	1,092,707	90,467
Trade receivables . . . . .	3,577,112	284,624	477,540	137,828
Debt . . . . .	(3,216,375)	—	—	—
Trade payables . . . . .	(1,054,166)	(92,681)	(54,718)	(56,841)
Other monetary payables . . . . .	(1,015,837)	—	(22,547)	(59,735)
Total net monetary exposure . . . . .	(720,305)	(700,560)	1,492,982	111,719

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	As at 31 December 2017			
	EUR	GBP	CNY	JPY
Cash and bank (including fixed term deposits) . . . . .	1,015,186	(1,003,738)	562,710	904,078
Trade receivables . . . . .	3,840,916	257,776	125,293	606,856
Debt . . . . .	(3,373,875)	—	—	—
Trade payables . . . . .	(1,419,887)	(75,902)	(41)	—
Other monetary payables . . . . .	(2,837,559)	(342,174)	—	—
Total net monetary exposure . . . . .	(2,775,219)	(1,164,038)	687,962	1,510,934

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. To lower volatility and increase predictability of interest expenses, the Group may enter into simple financial derivatives such as interest rate swaps.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in interest rates after taking into account the effect of the interest rate swap hedges, with all other variables held constant, of the Groups profit before tax (through the impact on floating rate borrowings) for the year ended 31 December:

	31 December 2018	
	Gains (losses) through the consolidated statement of income	
	+100 bps	-100 bps
<b>3M SAIBOR</b> . . . . .	<b>114</b>	<b>(114)</b>
<b>6M SAIBOR</b> . . . . .	<b>(2,129)</b>	<b>2,129</b>
<b>9M SAIBOR</b> . . . . .	<b>(778)</b>	<b>778</b>
<b>1M LIBOR</b> . . . . .	<b>(94)</b>	<b>94</b>
<b>6M LIBOR</b> . . . . .	<b>(6,394)</b>	<b>6,394</b>
	31 December 2017	
	Gains (losses) through the consolidated statement of income	
	+100 bps	-100 bps
3M SAIBOR . . . . .	(73)	73
6M SAIBOR . . . . .	(2,063)	2,063
9M SAIBOR . . . . .	(546)	546
1M LIBOR . . . . .	(679)	679
3M LIBOR . . . . .	(200)	200
6M LIBOR . . . . .	(4,795)	4,795

**Commodity risk**

The Group is exposed to the impact of market fluctuations of the price of various inputs to production including naphtha, benzene, natural gas and electricity. From time to time, the Group manages some elements of commodity price risk through the use of fixed price contracts and derivative instruments.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Capital management**

The primary objective to the Group's capital management is to support its business and maximise shareholder value.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. There were no changes in the Group's approach to capital management during the year. The Board of Directors also monitors the level of dividends to ordinary shareholders and capital management. Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt to equity ratio at the end of the reporting year was as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Total liabilities .....	<b>98,274,399</b>	111,472,314
Less: cash and bank balances .....	<b>(42,590,820)</b>	(59,038,656)
Net debt .....	<b>55,683,579</b>	52,433,658
Total equity .....	<b>221,436,475</b>	210,138,492
Debt to equity ratio as of 31 December .....	<b>25%</b>	25%

**37 Commitments and contingencies**

**Capital commitments**

At 31 December 2018, the Group had commitments of SR 9.92 billion (31 December 2017: SR 9.11 billion) relating to capital expenditures.

SABIC has an equity contribution commitment towards its 15% interest in MWSPC. As of 31 December 2018, the outstanding commitment toward this investment amounts to SR 0.07 billion (31 December 2017: SR 0.07 billion). Pursuant to the terms of agreements with the other shareholders and external lenders, SABIC has agreed to contribute additional funds to the project, under certain circumstances and to the extent required, in the event of project cost over-runs.

SABIC also has an equity contribution commitment towards its 25% interest in Dussur. As at 31 December 2018, the outstanding commitment towards this investment amounts to SR 0.28 billion (as at 31 December 2017: SR 0.28 billion).

The Group has signed agreements with vendors maturing over various years through 2025 for capital commitment for the ongoing operations of its business. Under the terms of these agreements, the Group has committed to contractually specified minimums over the contract periods.

**Guarantees**

SABIC has provided guarantees for bonds and certain term loans for certain subsidiaries which amounted to SR 29.4 billion as of 31 December 2018 (31 December 2017: SR 31.0 billion).

**Contingent liabilities**

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 2.72 billion (31 December 2017: SR 2.86 billion) in the normal course of business.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**Operating lease commitments**

The Group has entered into operating leases on certain motor vehicles and items of machinery. Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	31 December 2018	31 December 2017
Within one year . . . . .	1,520,312	1,012,977
After one year but not more than five years . . . . .	3,929,788	2,886,844
More than five years . . . . .	3,455,462	2,657,715
	8,905,562	6,557,536

**Finance leases**

Group as a lessee

The Group has finance lease contracts for various items of plant and machinery.

Future minimum lease payments under finance lease contracts, together with the present value of the net minimum lease payments, are as follows:

	31 December 2018	
	Minimum Payments	Present value of payments
Within one year . . . . .	138,709	85,502
After one year but not more than five years . . . . .	497,430	348,325
More than five years . . . . .	356,093	305,098
Total minimum lease payments . . . . .	992,232	738,925
Less: amounts representing finance charges . . . . .	(253,307)	—
Present value of minimum lease payments . . . . .	738,925	738,925
	31 December 2017	
	Minimum Payments	Present value of payments
Within one year . . . . .	102,230	93,301
After one year but not more than five years . . . . .	517,629	439,798
More than five years . . . . .	564,113	331,914
Total minimum lease payments . . . . .	1,183,972	865,013
Less: amounts representing finance charges . . . . .	(318,959)	—
Present value of minimum lease payments . . . . .	865,013	865,013

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

Group as a lessor

Future minimum lease receivables under these contracts, together with the present value of the net minimum lease payments, are as follows:

	31 December 2018	
	Minimum lease receivable	Present value
Within one year . . . . .	37,919	18,103
After one year but not more than five years . . . . .	132,851	84,306
More than five years . . . . .	242,150	153,666
Total minimum lease receivable . . . . .	412,920	256,075
Less: amounts representing finance income . . . . .	(156,845)	—
Present value of minimum lease receivable . . . . .	256,075	256,075

	31 December 2017	
	Minimum lease receivable	Present value
Within one year . . . . .	41,673	16,389
After one year but not more than five years . . . . .	163,845	108,671
More than five years . . . . .	253,235	162,818
Total minimum lease receivable . . . . .	458,753	287,878
Less: amounts representing finance income . . . . .	(170,875)	—
Present value of minimum lease receivable . . . . .	287,878	287,878

The Group is deemed as a lessor in certain supply contracts where the agreements convey the right to use related equipment mainly gas pipelines and other related accessories. The duration of the lease agreements are between 15 to 20 years which are a significant majority of the useful lives of the related assets. The lessor is responsible for maintenance and insurance of the assets.

Generally, there are minimum payments due from the lessee regardless of potential termination of the agreements. Renewal of lease agreements are possible but are subject to mutual agreement.

**38 Reclassification in comparative numbers**

During the year, the Group reclassified certain balances as listed below, which are considered by management a more accurately presentation and reflects the related nature. These reclassifications have no impact on previously reported net income or retained earnings:

	As per previously reported	Reclassified amounts	Amount of reclassification
<b>Consolidated statement of financial position</b>			
Deferred tax assets . . . . .	1,518,599	673,983	844,616
Deferred tax liabilities . . . . .	2,597,059	1,752,443	844,616
<b>Consolidated statement of income statement</b>			
Cost of sales . . . . .	99,785,144	99,858,243	73,099
General and administrative expenses . . . . .	10,642,900	10,569,801	73,099

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**39 Appropriations**

The Annual General Assembly (“AGA”), in its meeting held on 1 Shabaan 1439H (corresponding to 17 April 2018), approved cash dividends of SR 12.6 billion (SR 4.2 per share) which includes the interim cash dividends amounting to SR 6 billion (SR 2 per share) for the first half of 2017. The AGA also approved Board of Directors’ remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 20 Ramadan 1439H (corresponding to 5 June 2018), SABIC declared interim cash dividends for the first half of the year 2018 amounting to SR 6.6 billion (at SR 2.2 per share).

The aforementioned appropriations have been reflected in these consolidated financial statements for the year ended 31 December 2018, excluding interim dividend of SR 6 billion for the first half of 2017, which had already been accounted for in the consolidated financial statements for the year ended 31 December 2017.

On 11 Rabi Thani 1440H (corresponding to 18 December 2018), the Board of Directors proposed a distribution of cash dividends for the second half of the year 2018 amounting to SR 6.6 billion (at SR 2.2 per share). The proposed dividends are subject to approval of the shareholders in the AGA in April 2019.

**40 Subsequent events**

In the opinion of management, there have been no significant subsequent events since the year ended 31 December 2018 that would have a material impact on the financial position of the Group as reflected in these consolidated financial statements.

**41 Subsidiaries**

SABIC Group’s subsidiaries are set out below:

	<b>Country of incorporation</b>	<b>% Shareholding (direct and indirect) as at 31 December 2018</b>	<b>% Shareholding (direct and indirect) as at 31 December 2017</b>
SABIC Luxembourg S.à r.l. (“SLUX”) and its subsidiaries (Note 41.1) . . . . .	Luxembourg	<b>100.00</b>	100.00
SABIC Industrial Investments Company (“SIIC”) and its subsidiaries (Note 41.2) . . . . .	KSA	<b>100.00</b>	100.00
Arabian Petrochemical Company (“PETROKEMYA”) . . . . .	KSA	<b>100.00</b>	100.00
Saudi Iron and Steel Company (“HADEED”) . . . . .	KSA	<b>100.00</b>	100.00
SABIC Sukuk Company (“SUKUK”) . . . . .	KSA	<b>100.00</b>	100.00
SABIC Industrial Catalyst Company (“SABCAT”) . . . . .	KSA	<b>100.00</b>	100.00
Saudi Carbon Fibre Company (“SCFC”) . . . . .	KSA	<b>100.00</b>	100.00
SABIC Supply Chain Services Limited Company (“SSCS”) . . . . .	KSA	<b>100.00</b>	100.00
Saudi Petrochemical Company (“SADAF”) . . . . .	KSA	<b>100.00</b>	100.00
Saudi Japanese Acrylonitrile Company (“SHROUQ”) . . . . .	KSA	<b>100.00</b>	80.00
Saudi European Petrochemical Company (“IBN Zahr”) . . . . .	KSA	<b>80.00</b>	80.00
Jubail United Petrochemical Company (“UNITED”) . . . . .	KSA	<b>75.00</b>	75.00

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
National Chemical Fertiliser Company (“IBN AL-BAYTAR”) . . . . .	KSA	<b>71.50</b>	71.50
National Industrial Gases Company (“GAS”) . . . . .	KSA	<b>70.00</b>	70.00
Yanbu National Petrochemical Company (“YANSAB”) . . . . .	KSA	<b>51.95</b>	51.95
Saudi Methanol Company (“AR-RAZI”) . . . . .	KSA	<b>50.00</b>	50.00
Al-Jubail Fertiliser Company (“AL BAYRONI”) . . . . .	KSA	<b>50.00</b>	50.00
Saudi Yanbu Petrochemical Company (“YANPET”) . . . . .	KSA	<b>50.00</b>	50.00
National Methanol Company (“IBN-SINA”) . . . . .	KSA	<b>50.00</b>	50.00
Eastern Petrochemical Company (“SHARQ”) . . . . .	KSA	<b>50.00</b>	50.00
Al-Jubail Petrochemical Company (“KEMYA”) . . . . .	KSA	<b>50.00</b>	50.00
Saudi Methacrylates Company (“SAMAC”) . . . . .	KSA	<b>50.00</b>	50.00
Arabian Industrial Fibers Company (“IBN RUSHD”) . . . . .	KSA	<b>48.07</b>	48.07
Saudi Arabian Fertiliser Company (“SAFCO”) . . . . .	KSA	<b>42.99</b>	42.99
Saudi Kayan Petrochemical Company (“SAUDI KAYAN”) . . . . .	KSA	<b>35.00</b>	35.00
Saudi Speciality Chemicals Company (“SP. CHEM”) . . . . .	KSA	<b>100.00</b>	100.00
Saudi Organometallic Chemicals Company (“SOCC”) . . . . .	KSA	<b>50.00</b>	50.00

Notes:

- The country of incorporation is also their principal place of business.
- The principal activities of majority of the Group’s subsidiaries are manufacturing, marketing and distribution of petrochemical, specialties and related products except for;
  - SAFCO, AL BAYRONI and IBN AL-BAYTAR that are involved in agri-nutrients business; and
  - HADEED is involved in metal business
- YANSAB, SAFCO, and SAUDI KAYAN are public companies and listed on Saudi Stock Exchange (Tadawul)
- SHROUQ; during 2018, the Group acquired 20% of the non-controlling interests in SHROUQ.
- AR-RAZI; on 4 December 2018, the Group and Japan Saudi Arabia Methanol Company, Inc., the partner in AR-RAZI, entered into an agreement for the Group to acquire 50% of JSMC’s share in AR-RAZI (equivalent to 25% in AR-RAZI) for USD 0.15 billion. The transfer of share and payment are expected to be completed in 2019, subject to regulatory approvals. As there is no change in control, the acquisition would be accounted for as an equity transaction.
- SP. CHEM is 99% owned by Petrokemya and 1% owned by SIIC, and SOCC is 50% owned by SP. CHEM
- SUKUK is currently in the process of liquidation

**41.1 SABIC Luxembourg S.à r.l. and its subsidiaries**

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
<b>Subsidiaries</b>			
SABIC Innovative Plastics Argentina SRL . . . . .	Argentina	<b>100.00</b>	100.00
SABIC Australia Pty Ltd. . . . .	Australia	<b>100.00</b>	100.00
SABIC Innovative Plastics Australia Pty Ltd. . . . .	Australia	<b>100.00</b>	100.00
SABIC Innovative Plastics Austria GmbH . . . . .	Austria	<b>100.00</b>	100.00
SABIC Innovative Plastics GmbH & Co. KG . . . . .	Austria	<b>100.00</b>	100.00

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Innovative Plastics South America—			
Indústria e Comércio de Plásticos Ltda . . . . .	Brazil	<b>100.00</b>	100.00
NV Pijpleiding Antwerpen-Limburg-Luik (PALL) . . . . .	Belgium	<b>100.00</b>	100.00
SABIC Belgium NV . . . . .	Belgium	<b>100.00</b>	100.00
SABIC Innovative Plastics Canada, Inc. . . . .	Canada	<b>100.00</b>	100.00
SABIC Innovative Plastics (China) Co., Ltd. . .	China	<b>100.00</b>	100.00
SABIC Innovative Plastics (Chongqing) Co., Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC Innovative Plastics International Trading (Shanghai) Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC Innovative Plastics . . . . .			
Management (Shanghai) Co., Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC Innovative Plastics Shanghai Co., Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC (Shanghai) Trading Co. Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC (China) Research & Development Co. Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC (Shanghai) Industry Co. Ltd. . . . .	China	<b>100.00</b>	100.00
SABIC Innovative Plastics Czech s.r.o. . . . .	Czech Republic	<b>100.00</b>	100.00
SABIC Innovative Plastics Denmark Aps . . . . .	Denmark	<b>100.00</b>	100.00
SABIC Nordic A/S . . . . .	Denmark	<b>100.00</b>	100.00
SABIC Innovative Plastics Finland Oy . . . . .	Finland	<b>100.00</b>	100.00
SABIC France S.A.S. . . . .	France	<b>100.00</b>	100.00
SABIC Innovative Plastics France S.A.S. . . . .	France	<b>100.00</b>	100.00
SABIC Deutschland GmbH . . . . .	Germany	<b>100.00</b>	100.00
SABIC Holding Deutschland GmbH . . . . .	Germany	<b>100.00</b>	100.00
SABIC Innovative Plastics GmbH . . . . .	Germany	<b>100.00</b>	100.00
SABIC Innovative Plastics Holding Germany GmbH . . . . .	Germany	<b>100.00</b>	100.00
SABIC Polyolefine GmbH . . . . .	Germany	<b>100.00</b>	100.00
SABIC Greece M.E.P.E. . . . .	Greece	<b>100.00</b>	100.00
SABIC Innovative Plastics Hong Kong Ltd. . . .	Hong Kong	<b>100.00</b>	100.00
SABIC Innovative Plastics SIT Holding Ltd. . .	Hong Kong	<b>100.00</b>	100.00
SABIC Innovative Plastics Taiwan Holding Ltd. . . . .	Hong Kong	<b>100.00</b>	100.00
<b>Subsidiaries</b>			
SABIC Hungary Kft. . . . .	Hungary	<b>100.00</b>	100.00
SABIC Innovative Plastics Kereskedelmi Kft. . . . .	Hungary	<b>100.00</b>	100.00
SABIC India Pvt Ltd. . . . .	India	<b>100.00</b>	100.00
SABIC Innovative Plastics India Private Ltd. . .	India	<b>100.00</b>	100.00
SABIC R&T Pvt Ltd. . . . .	India	<b>100.00</b>	100.00
SABIC Innovative Plastics Italy Srl . . . . .	Italy	<b>100.00</b>	100.00
SABIC Italia Srl . . . . .	Italy	<b>100.00</b>	100.00
SABIC Sales Italy Srl . . . . .	Italy	<b>100.00</b>	100.00
SABIC Japan Ltd. . . . .	Japan	<b>100.00</b>	100.00

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Korea Ltd. ....	Korea	100.00	100.00
SABIC Luxembourg S.à r.l. ....	Luxembourg	100.00	100.00
SABIC Innovative Plastics Malaysia Sdn Bhd .....	Malaysia	100.00	100.00
SABIC Innovative Plastics Mexico S de RL de CV .....	Mexico	100.00	100.00
SABIC Innovative Plastics Servicios Mexico S de RL de CV .....	Mexico	100.00	100.00
BV Snij-Unie HiFi .....	Netherlands	100.00	100.00
FRT B.V. ....	Netherlands	95.00	95.00
FRT Tapes B.V. ....	Netherlands	100.00	100.00
SABIC Capital B.V. ....	Netherlands	100.00	100.00
SABIC Capital I B.V. ....	Netherlands	100.00	100.00
SABIC Capital II B.V. ....	Netherlands	100.00	100.00
SABIC Innovative Plastics GP B.V. ....	Netherlands	100.00	100.00
SABIC Innovative Plastics Holding B.V. ....	Netherlands	100.00	100.00
SABIC Innovative Plastics Utilities B.V. ....	Netherlands	100.00	100.00
SABIC Licensing B.V. ....	Netherlands	100.00	100.00
SABIC Limburg B.V. ....	Netherlands	100.00	100.00
SABIC Sales Europe B.V. ....	Netherlands	100.00	100.00
SABIC Petrochemicals B.V. ....	Netherlands	100.00	100.00
SABIC Ventures B.V. ....	Netherlands	100.00	100.00
SABIC Mining B.V. ....	Netherlands	100.00	100.00
Petrochemical Pipeline Services B.V. ....	Netherlands	100.00	100.00
SABIC Europe B.V. ....	Netherlands	100.00	100.00
SABIC International Holdings B.V. ....	Netherlands	100.00	100.00
SABIC Innovative Plastics B.V. ....	Netherlands	100.00	100.00
SABIC Global Technologies B.V. ....	Netherlands	100.00	100.00
SABIC Innovative Plastics Poland Sp. Z o.o. ..	Poland	100.00	100.00
SABIC Poland Sp. Z o.o. ....	Poland	100.00	100.00
LLC SABIC Eastern Europe .....	Russia	100.00	100.00
SABIC Innovative Plastics Russia Z o.o. ....	Russia	100.00	100.00
<b>Subsidiaries</b>			
SABIC Innovative Plastics (SEA) Pte. Ltd. ....	Singapore	100.00	100.00
SABIC Innovative Plastics Holding Singapore Pte. Ltd. ....	Singapore	100.00	100.00
SABIC Innovative Plastics Singapore Pte. Ltd. ....	Singapore	100.00	100.00
SABIC Asia Pacific Pte Ltd .....	Singapore	100.00	100.00
SABIC Innovative Plastics Espana ScpA .....	Spain	100.00	100.00
SABIC Innovative Plastics GP BV, Sociedad en Comandita .....	Spain	100.00	100.00
SABIC Sales Spain SL .....	Spain	100.00	100.00
SABIC Marketing Ibérica S.A. ....	Spain	100.00	100.00
Saudi Innovative Plastics Sweden AB .....	Sweden	100.00	100.00
SABIC Innovative Plastics (Thailand) Co. Ltd. ....	Thailand	100.00	100.00

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABIC Global Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC Tees Holdings Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC Innovative Plastics ABS UK Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC Innovative Plastics Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC UK Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC UK Pension Trustee Ltd. . . . .	UK	<b>100.00</b>	100.00
SABIC UK Petrochemicals Ltd. . . . .	UK	<b>100.00</b>	100.00
Exatec, LLC . . . . .	US	<b>100.00</b>	100.00
Mt. Vernon Phenol Plant Partner . . . . .	US	<b>51.00</b>	51.00
SABIC Americas Inc. . . . .	US	<b>100.00</b>	100.00
SABIC Innovative Plastics Holding US LP . . . .	US	<b>100.00</b>	100.00
SABIC Innovative Plastics Mt. Vernon, LLC . .	US	<b>100.00</b>	100.00
SABIC Innovative Plastics US LLC . . . . .	US	<b>100.00</b>	100.00
SABIC Petrochemicals Holding US, Inc. . . . .	US	<b>100.00</b>	100.00
SABIC Ventures US Holdings LLC . . . . .	US	<b>100.00</b>	100.00
SABIC US Projects LLC . . . . .	US	<b>100.00</b>	100.00
SABIC Uruguay SA . . . . .	Uruguay	<b>100.00</b>	100.00
SABIC Vietnam Ltd. . . . .	Vietnam	<b>100.00</b>	100.00
SABIC Americas Growth LLC . . . . .	US	<b>100.00</b>	—
SABIC US Methanol LLC . . . . .	US	<b>100.00</b>	—
Black Diamonds Structures, LL . . . . .	US	<b>50.1</b>	—

Note:

- Black Diamonds; as the Group acquired control over Black Diamond as at 1 January 2018 and due to change in control, this equity investment is now consolidated from 1 January 2018. (Note 9)

**41.2 SIIC Group Subsidiaries**

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
SABCAP Insurance Limited (“SABCAP”) . . . . .	Guernsey	<b>100.00</b>	100.00
SABIC Petrokemya Ticaret Limited (“SABIC TURKEY”) . . . . .	Turkey	<b>100.00</b>	100.00
SABIC Middle East Offshore Company (“SABIC MIDDLE EAST”) . . . . .	Lebanon	<b>100.00</b>	100.00
SABIC South Africa . . . . .	South Africa	<b>100.00</b>	100.00
SABIC Africa for Trading & Marketing (“SABIC AFRICA”) . . . . .	Egypt	<b>100.00</b>	100.00
SABIC Morocco . . . . .	Morocco	<b>100.00</b>	100.00
SABIC Global Mobility Company (“GMC”) . . .	UAE	<b>100.00</b>	100.00
SABIC Mobility Company (“GMC LLC”) . . . . .	UAE	<b>100.00</b>	—
SABIC Tunisia . . . . .	Tunisia	<b>100.00</b>	100.00
SABIC Kenya . . . . .	Kenya	<b>100.00</b>	100.00
SABIC (Pvt.) Pakistan . . . . .	Pakistan	<b>100.00</b>	100.00
International Shipping and Transportation Co. (“ISTC”) . . . . .	KSA	<b>99.00</b>	99.00

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<u>Country of incorporation</u>	<u>% Shareholding (direct and indirect) as at 31 December 2018</u>	<u>% Shareholding (direct and indirect) as at 31 December 2017</u>
SABIC Terminal Services Company ("SABTANK") .....	KSA	<b>90.00</b>	90.00
Jubail Chemical Storage and Services Company ("CHEMTANK") .....	KSA	<b>75.00</b>	75.00

Notes:

- GMC LLC was established during 2018 and is engaged in providing administrative services to the Group's global assignees and GMC is currently under liquidation.
- CHEMTANK; during 2018, management has decided to change the legal name of JCSCC as "CHEMTANK".

#### 42 Investment in associates and joint arrangements

Below is the listing of the Group's investment in associates and joint arrangements. These are strategic investments for the Group.

	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% Shareholding (direct and indirect) as at 31 December 2018</u>	<u>% Shareholding (direct and indirect) as at 31 December 2017</u>
<b>Associates</b>				
Gulf Petrochemical Industries Company ("GPIC") .....	Bahrain	Petrochemical	<b>33.33</b>	33.33
Gulf Aluminium Rolling Mills Company ("GARMCO") .....	Bahrain	Aluminium	<b>30.40</b>	30.40
Ma'aden Phosphate Company ("MPC") .....	KSA	Agri-Nutrients	<b>30.00</b>	30.00
Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ") .....	KSA	Utilities	<b>24.81</b>	24.81
Aluminium Bahrain BSC ("ALBA") .....	Bahrain	Aluminium	<b>20.62</b>	20.62
National Chemical Carrier Company ("NCC") .....	KSA	Transportation	<b>20.00</b>	20.00
Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC") .....	KSA	Agri-Nutrients	<b>15.00</b>	15.00
Saudi Arabian Industrial Investment Company ("DUSSUR") .....	KSA	Investments	<b>25.00</b>	25.00
Clariant AG ("CLARIANT") .....	Switzerland	Specialty chemical	<b>24.99</b>	—
Cosmar Inc. ("COSMAR") .....	USA	Petrochemical	<b>50.00</b>	50.00
Black Diamonds Structures, LLC ("BLACK DIAMONDS") .....	USA	Specialities	—	50.00
<b>Joint Ventures</b>				
SINOPEC/SABIC Tianjin Petrochemical Company Limited .....	China	Petrochemical	<b>50.00</b>	50.00
SABIC SK Nexelene Company .....	Singapore	Petrochemical	<b>50.00</b>	50.00



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

	<u>Country of incorporation</u>	<u>Principal activities</u>	<u>% Shareholding (direct and indirect) as at 31 December 2018</u>	<u>% Shareholding (direct and indirect) as at 31 December 2017</u>
<b>Joint Operations</b>				
Utility Support Group (“USG”)				
B.V. ....	Netherlands	Petrochemical	<b>50.00</b>	50.00
Gulf Coast Growth Venture LLC				
(“GCGV”) ....	USA	Petrochemical	<b>50.00</b>	50.00

Notes:

- The country of incorporation is also their principal place of business.
- CLARIANT; during 2018, SABIC acquired 24.99% ownership in Clariant, a global specialty chemical company listed at the Swiss Stock Exchange. (Note 9.1)
- BLACK DIAMONDS; as the Group acquired control over Black Diamond as at 1 January 2018 and due to change in control, this equity investment is now consolidated from 1 January 2018. (Note 9)
- SLUX Group participates in following Joint Operations:
  - USG (Geleen, the Netherlands), which is operated jointly with other stakeholders to produce utilities for a production site
  - GCGV (Houston, USA), a cooperation with ExxonMobil Chemical to investigate the feasibility of constructing an ethane steam cracking facility and downstream plants.

The Group holds a 50% share in each of these joint operations and controls them jointly with the respective partners. The partners ensure the ongoing financing of the companies, either by the utilities directly sold to the partners or sharing the costs.



**SAUDI BASIC INDUSTRIES CORPORATION  
(SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019 AND  
INDEPENDENT AUDITOR'S REVIEW REPORT**



**Ernst & Young & Co. (Certified Public Accountants)**  
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**Independent auditor’s review report on the interim condensed consolidated financial statements**  
to the shareholders of Saudi Basic Industries Corporation (SABIC)  
(A Saudi Joint Stock Company)

**Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Basic Industries Corporation (“SABIC”) and its subsidiaries (collectively with SABIC referred to as “the Group”) as at 30 June 2019, and the related interim condensed consolidated statements of income and comprehensive income for the three and six months periods ended 30 June 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. AlRashoud  
Certified Public Accountant  
License No. (366)  
Riyadh: 22 Dhul-Qadah 1440H  
(25 July 2019)



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	<u>As at 30 June 2019</u>	<u>As at 31 December 2018</u>
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment, and right-of-use assets	4, 6	171,850,524	163,819,684
Intangible assets		12,687,162	12,947,211
Investments in associates and joint ventures		24,955,171	25,780,550
Other non-current assets	5, 7	10,183,555	9,575,601
<b>Total non-current assets</b>		<u>219,676,412</u>	<u>212,123,046</u>
<b>Current assets:</b>			
Inventories		27,624,746	28,244,803
Trade receivables		21,932,408	21,821,849
Prepayments and other current assets	5	4,801,071	5,114,857
Short-term investments		6,158,536	9,815,499
Cash and bank balances		39,757,999	42,590,820
<b>Total current assets</b>		<u>100,274,760</u>	<u>107,587,828</u>
<b>TOTAL ASSETS</b>		<u>319,951,172</u>	<u>319,710,874</u>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the Parent		169,537,379	173,084,380
Non-controlling interests		45,865,964	48,352,095
<b>Total equity</b>		<u>215,403,343</u>	<u>221,436,475</u>
<b>Non-current liabilities:</b>			
Long-term debt and lease liabilities	4	43,703,941	42,345,396
Employee benefits		16,846,256	15,000,025
Other non-current liabilities	8	3,864,324	3,820,575
<b>Total non-current liabilities</b>		<u>64,414,521</u>	<u>61,165,996</u>
<b>Current liabilities:</b>			
Short-term borrowings, current portion of long-term debt and lease liabilities	4	4,927,211	4,917,845
Trade payables and other current liabilities		35,206,097	32,190,558
<b>Total current liabilities</b>		<u>40,133,308</u>	<u>37,108,403</u>
<b>Total liabilities</b>		<u>104,547,829</u>	<u>98,274,399</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>319,951,172</u>	<u>319,710,874</u>



EVP Corporate Finance



Vice Chairman & CEO



Authorised Board of Directors Member

The notes on page 8 to 16 form an integral part of these interim condensed consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the three months period ended 30 June		For the six months period ended 30 June	
	2019	2018	2019	2018
Revenue .....	<b>35,866,814</b>	43,284,598	<b>73,236,683</b>	85,146,194
Cost of sales .....	<b>(25,841,720)</b>	(27,184,481)	<b>(51,945,039)</b>	(54,625,402)
<b>Gross profit</b> .....	<b>10,025,094</b>	16,100,117	<b>21,291,644</b>	30,520,792
General and administrative expenses .....	<b>(2,605,625)</b>	(2,706,926)	<b>(5,221,800)</b>	(5,573,872)
Selling and distribution expenses .....	<b>(2,590,554)</b>	(2,563,361)	<b>(5,087,929)</b>	(5,171,256)
<b>Income from operations</b> .....	<b>4,828,915</b>	10,829,830	<b>10,981,915</b>	19,775,664
Share of results of associates and joint ventures ...	<b>(174,366)</b>	330,077	<b>42,607</b>	696,300
Finance cost, net .....	<b>(329,137)</b>	(284,508)	<b>(651,669)</b>	(552,756)
Other expenses, net .....	<b>(35,509)</b>	(146,037)	<b>(76,044)</b>	(122,594)
<b>Income before zakat and income tax</b> .....	<b>4,289,903</b>	10,729,362	<b>10,296,809</b>	19,796,614
Zakat expense .....	<b>(675,000)</b>	(650,000)	<b>(1,350,000)</b>	(1,300,000)
Income tax expense .....	<b>(316,498)</b>	(137,000)	<b>(668,660)</b>	(846,000)
<b>Net income for the period</b> .....	<b>3,298,405</b>	9,942,362	<b>8,278,149</b>	17,650,614
<b>Attributable to:</b>				
Equity holders of the Parent .....	<b>2,115,493</b>	6,695,317	<b>5,523,591</b>	12,203,398
Non-controlling interests .....	<b>1,182,912</b>	3,247,045	<b>2,754,558</b>	5,447,216
	<b>3,298,405</b>	9,942,362	<b>8,278,149</b>	17,650,614
<b>Basic and diluted earnings per share (Saudi Riyals):</b>				
Earnings per share from income from operations ..	<b>1.61</b>	3.61	<b>3.66</b>	6.59
Earnings per share from net income attributable to equity holders of the Parent .....	<b>0.71</b>	2.23	<b>1.84</b>	4.07



EVP Corporate Finance



Vice Chairman & CEO



Authorised Board of Directors Member

The notes on page 8 to 16 form an integral part of these interim condensed consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the three months period ended 30 June		For the six months period ended 30 June	
	2019	2018	2019	2018
Net income for the period . . . . .	<b>3,298,405</b>	9,942,362	<b>8,278,149</b>	17,650,614
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified to the consolidated statement of income (net of tax):</i>				
—Re-measurement (loss) gain on defined benefit plans and others . . . . .	<b>(338,068)</b>	22,626	<b>(1,170,418)</b>	519,020
—Share of other comprehensive income of associates and joint ventures . . . . .	<b>(43,590)</b>	—	<b>(49,843)</b>	—
—Net change on revaluation of investments in equity instruments at FVOCI . . . . .	—	—	<b>(20,579)</b>	—
<i>Items that will be reclassified to the consolidated statement of income (net of tax):</i>				
—Exchange difference on translation of foreign operations and others . . . . .	<b>189,181</b>	(1,360,342)	<b>(75,387)</b>	(741,807)
—Share of other comprehensive income of associates and joint ventures . . . . .	<b>461,968</b>	(145,731)	<b>63,915</b>	388,449
<b>Movement of other comprehensive income . . . . .</b>	<b>269,491</b>	(1,483,447)	<b>(1,252,312)</b>	165,662
<b>Total comprehensive income for the period . . . . .</b>	<b>3,567,896</b>	8,458,915	<b>7,025,837</b>	17,816,276
<b>Attributable to:</b>				
Equity holders of the Parent . . . . .	<b>2,450,963</b>	5,203,550	<b>4,417,688</b>	12,267,708
Non-controlling interests . . . . .	<b>1,116,933</b>	3,255,365	<b>2,608,149</b>	5,548,568
	<b>3,567,896</b>	8,458,915	<b>7,025,837</b>	17,816,276



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**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(All amounts in Saudi Riyals '000 unless otherwise stated)

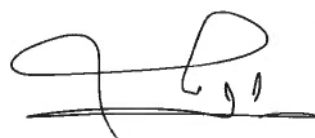
	Attributable to the equity holders of the Parent					Total	Non-controlling interests	Total equity
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings			
Balance as at 1 January 2018	30,000,000	15,000,000	110,889,032	(1,860,638)	10,233,854	164,262,248	46,218,398	210,480,646
Net income	—	—	—	—	12,203,398	12,203,398	5,447,216	17,650,614
Other comprehensive income	—	—	—	64,310	—	64,310	101,352	165,662
Total comprehensive income	—	—	—	64,310	12,203,398	12,267,708	5,548,568	17,816,276
Dividends and others	—	—	—	—	(13,200,000)	(13,200,000)	(3,737,504)	(16,937,504)
Balance as at 30 June 2018	30,000,000	15,000,000	110,889,032	(1,796,328)	9,237,252	163,329,956	48,029,462	211,359,418
<b>Balance as at 1 January 2019</b>	<b>30,000,000</b>	<b>15,000,000</b>	<b>110,889,032</b>	<b>(1,359,184)</b>	<b>18,554,532</b>	<b>173,084,380</b>	<b>48,352,095</b>	<b>221,436,475</b>
Net income	—	—	—	—	5,523,591	5,523,591	2,754,558	8,278,149
Other comprehensive income	—	—	—	(1,105,903)	—	(1,105,903)	(146,409)	(1,252,312)
Total comprehensive income	—	—	—	(1,105,903)	5,523,591	4,417,688	2,608,149	7,025,837
Acquisition of non-controlling interests (Note 5)	—	—	—	15,154	5,220,157	5,235,311	(847,811)	4,387,500
Dividends and others	—	—	—	—	(13,200,000)	(13,200,000)	(4,246,469)	(17,446,469)
Balance as at 30 June 2019	30,000,000	15,000,000	110,889,032	(2,449,933)	16,098,280	169,537,379	45,865,964	215,403,343



EVP Corporate Finance



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Authorised Board of Directors Member

The notes on page 8 to 16 form an integral part of these interim condensed consolidated financial statements.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Note	For the six months period ended 30 June 2019	For the six months period ended 30 June 2018
<b>Operating activities:</b>			
Income before zakat and income tax		10,296,809	19,796,614
<i>Adjustments to reconcile income before zakat and tax to net cash inflow from operating activities:</i>			
—Depreciation, amortisation and impairment		8,240,095	7,344,061
—Finance costs		1,392,441	1,236,557
—Share of results of associates and joint ventures		(42,607)	(696,300)
—Provisions and other movements, net		56,728	(25,105)
<i>Changes in operating assets and liabilities:</i>			
Decrease in other non-current assets		286,450	271,114
Working capital changes		11,765	(2,482,687)
Increase (decrease) in employee benefits		729,994	(1,051,612)
Increase in other non-current liabilities		54,095	60,802
<b>Cash from operations</b>		<b>21,025,770</b>	<b>24,453,444</b>
Finance cost paid		(976,179)	(841,768)
Zakat and income tax paid		(3,646,168)	(2,890,147)
<b>Net cash from operating activities</b>		<b>16,403,423</b>	<b>20,721,529</b>
<b>Investing activities:</b>			
Purchase of tangible and intangible assets, net		(8,491,045)	(5,996,053)
Short-term investments, net		3,753,473	(2,699,970)
Other assets movements		494,874	(10,702,643)
Investments in associates and joint ventures, net		833,158	361,704
<b>Net cash used in investing activities</b>		<b>(3,409,540)</b>	<b>(19,036,962)</b>
<b>Financing activities:</b>			
Proceeds from debt		7,425,000	11,450,000
Debt and lease repayments		(12,599,056)	(4,487,199)
Acquisition of non-controlling interests	5	1,125,000	—
Dividends, net		(10,804,125)	(9,428,144)
<b>Net cash used in financing activities</b>		<b>(14,853,181)</b>	<b>(2,465,343)</b>
Net decrease in cash and cash equivalents		(1,859,298)	(780,776)
Cash and cash equivalents at the beginning of the period		41,423,231	57,973,656
<b>Cash and cash equivalents at the end of the period</b>		<b>39,563,933</b>	<b>57,192,880</b>
Cash and bank balances		39,757,999	58,254,535
Less: bank overdrafts		(194,066)	(1,061,655)
<b>Cash and cash equivalents</b>		<b>39,563,933</b>	<b>57,192,880</b>
Supplementary non-cash information			
—Right-of-use assets		7,712,543	—
—Lease liabilities		7,246,565	—



EVP Corporate Finance



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The notes on page 8 to 16 form an integral part of these interim condensed consolidated financial statements.



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019**  
(All amounts in Saudi Riyals '000 unless otherwise stated)

**1. Corporate information**

Saudi Basic Industries Corporation (“SABIC” or “the Parent”) is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia (“KSA”) through the Public Investment Fund (“PIF”) and 30% by the private sector. The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

On 27 March 2019, PIF and Saudi Aramco have signed a share purchase agreement pursuant to which Saudi Aramco has agreed to acquire all of PIF’s stake in SABIC. Completion of the transaction is subject to customary closing conditions, including regulatory approvals. Upon completion of the transaction, Saudi Aramco will own 70% of SABIC’s issued share capital.

SABIC and its subsidiaries (collectively the “Group”) are engaged in the manufacturing, marketing and distribution of chemicals, polymers, plastics, agri-nutrients and metal products in global markets.

The interim condensed consolidated financial statements of the Group for the three and six months period ended 30 June 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 25 July 2019.

**2. Basis of preparation**

These interim condensed consolidated financial statements for the three and six months period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 ‘*Interim Financial Reporting*’ (“IAS 34”) as endorsed in the KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should therefore be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

An interim period is considered as integral part of the whole fiscal year, however, the results of operations for the interim periods may not be a fair indication of the results of the full year operations.

Certain prior periods’ figures have been reclassified to conform to the current period’s presentation.

**3. Summary of significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparing the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of International Financial Reporting Standard 16 ‘*Leases*’ (“IFRS 16”) at its effective date 1 January 2019.

IFRS 16 replaces IAS 17 ‘*Leases*’ (“IAS 17”), IFRIC 4 ‘*Whether an arrangement contains a lease*’ (“IFRIC 4”), SIC-15 ‘*Operating leases—Incentives*’ and SIC-27 ‘*Evaluating the substance of transactions involving the legal form of a lease*’. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019  
(All amounts in Saudi Riyals '000 unless otherwise stated)

**4. Changes in accounting policies**

**IFRS 16—Leases**

The Group has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

The Group has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 (and IFRIC 4.) In adopting IFRS 16, the Group has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months at 1 January 2019;
- exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

As at 1 January 2019, the Group has recognised lease liabilities amounting to SR 6.83 billion and associated right-of-use assets amounting to SR 7.29 billion in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liabilities, adjusted by the amount of prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group's weighted average incremental borrowing rate applied to the lease liabilities was 4.04%.

The following table shows the reconciliation of operating lease commitments under IAS 17 to the lease liabilities under IFRS 16 on 1 January 2019:

	<b>1 January 2019</b>
Operating lease commitments disclosed as at 31 December 2018 .....	8,905,562
Discounted using the Group's incremental borrowing rate .....	(1,980,916)
Less: short-term leases recognised on a straight-line basis as expense .....	(190,859)
Less: low-value leases recognised on a straight-line basis as expense .....	(19,493)
Add: contracts reassessed as lease agreements .....	118,287
	6,832,581
Add: finance lease liabilities recognised as at 31 December 2018 .....	738,925
Lease liabilities recognised as at 1 January 2019 .....	7,571,506

Leases are recognised as right-of-use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is recognised in the interim condensed consolidated statement of income over the lease term. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019**  
(All amounts in Saudi Riyals '000 unless otherwise stated)

Right-of-use assets are initially measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs; if applicable.

Lease liabilities include, if applicable, the net present value of fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

*Short-term and low value assets' leases*

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Group as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the interim condensed consolidated statement of income.

*Variable lease payments*

Some leases contain variable payments that are linked to the usage or performance of the leased asset. Such payments are recognised in the interim condensed consolidated statement of income.

*Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

**5. Significant matters during the period**

SABIC and Japan Saudi Arabia Methanol Company, Inc. ("JSMC"), the partner in Saudi Methanol Company ("Ar-Razi"), a 50% owned subsidiary of SABIC, entered into an agreement, whereby SABIC agreed to acquire an additional 25% of shares in Ar-Razi from JSMC, and renew the Joint Venture Agreement ("JVA") for 20 years. At the end of June 2019, all required regulatory approvals were obtained to complete this transaction.

In relation to the above, SABIC and JSMC agreed that SABIC will receive a net consideration of SR 4.50 billion from JSMC in three installments. The first installment amounting to SR 1.13 billion (USD 0.30 billion) was received on 25 June 2019, after offsetting a consideration of SR 0.56 billion (USD 0.15 billion) for the acquisition of additional 25% shares of Ar-Razi. The remaining two installments of SR 1.69 billion (USD 0.45 billion) each, will be due on 31 March 2020 and 2021, respectively. The current installment of receivable has been recorded as part of prepayments and other current assets and the final discounted installment amounting to SR 1.58 billion has been recorded as part of other non-current assets. The final installment has been discounted at 4% per annum.

Considering this transaction is related to the acquisition of an additional ownership interest in a subsidiary without a change of control, accordingly, it is accounted for as an equity transaction and excess consideration over the carrying amount of the non-controlling interests is recognised in equity attributable to the Parent. The Group has elected to recognise this effect in retained earnings. With respect to the subsidiary

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019  
(All amounts in Saudi Riyals '000 unless otherwise stated)

to which these non-controlling interests relate, there were accumulated components recognised in OCI amounting to SR 15 million which has been reallocated within equity of the Parent.

The accounting impact of the transaction can be summarised as follows:

Consideration from JSMC .....	5,062,500
Less: acquisition of 25% shares in Ar-Razi .....	<u>(562,500)</u>
Net consideration .....	4,500,000
Discounting of third installment .....	<u>(112,500)</u>
Net consideration after discounting at 4% per annum .....	4,387,500
Add: carrying value of the additional shares in Ar-Razi .....	847,811
Less: transfer of other comprehensive income .....	<u>(15,154)</u>
Excess recognised in retained earnings .....	<u><u>5,220,157</u></u>

**6. Property, plant and equipment, and right-of-use assets**

	As at 30 June 2019	As at 31 December 2018
Property, plant and equipment .....	<u>164,345,500</u>	163,819,684
Right-of-use assets .....	<u>7,505,024</u>	<u>—</u>
	<u><u>171,850,524</u></u>	<u><u>163,819,684</u></u>

**7. Other non-current assets**

	As at 30 June 2019	As at 31 December 2018
Investments in debt instruments .....	<u>1,881,407</u>	2,493,880
Receivables from JSMC (Note 5) .....	<u>1,575,000</u>	—
Investments in equity instruments and funds .....	<u>1,123,071</u>	1,090,109
Deferred tax assets .....	<u>794,777</u>	865,156
Others .....	<u>4,809,300</u>	5,126,456
	<u><u>10,183,555</u></u>	<u><u>9,575,601</u></u>

Refer to note 5 for further information on the receivables from Japan Saudi Arabia Methanol Company, Inc. ("JSMC"), the partner in Saudi Methanol Company ("Ar-Razi"), a subsidiary of SABIC.

**8. Other non-current liabilities**

	As at 30 June 2019	As at 31 December 2018
Deferred tax liabilities .....	<u>1,653,792</u>	1,664,138
Others .....	<u>2,210,532</u>	<u>2,156,437</u>
	<u><u>3,864,324</u></u>	<u><u>3,820,575</u></u>

**9. Fair value measurement**

Derivative financial assets amounting to SR 33.7 million (as at 31 December 2018: SR 29.7 million) are valued at fair value and classified as level 2 measurement.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019  
(All amounts in Saudi Riyals '000 unless otherwise stated)

The fair value of equity instruments at FVOCI is determined using a significant non-observable input and is classified as a level 3 measurement.

Description of valuation techniques used and key inputs to valuation investments in equity instruments is as follows:

<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range</u>
Market approach . . . . .	<ul style="list-style-type: none"> <li>• Equity value to EBITDA multiple</li> <li>• Midpoint of Net Asset Value and Price to Book multiple</li> </ul>	7.9 to 13.1 0.76
Net Asset Value approach . . . . .	Point estimate of distributable cash and cash equivalents and net assets	SR 46.1 to SR 49.9
Expected Returns approach . . . . .	Equity value to Revenue multiple	0.73

At 30 June 2019, the fair values of Group's other financial assets and financial liabilities approximate the carrying value.

**10. Related party transactions and balances**

The significant related party transactions and balances are broken down as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties	Loans to related parties	Loans from related parties
	<u>For the six months period ended 30 June 2019</u>		<u>As at 30 June 2019</u>		<u>As at 30 June 2019</u>	
Associates . . . . .	20,189	3,718,522	26,987	419,323	35,135	—
Joint ventures and partners . . . . .	6,162,406	328,601	2,657,722	38,180	717,387	1,869,357
	<u>For the six months period ended 30 June 2018</u>		<u>As at 31 December 2018</u>		<u>As at 31 December 2018</u>	
Associates . . . . .	795	4,068,863	25,818	368,434	35,135	—
Joint ventures and partners . . . . .	7,797,005	350,245	3,256,958	45,798	769,654	2,309,743

**11. Segment information**

For management purposes, the Group is organised into three Strategic Business Units ("SBUs") and Hadeed, a wholly owned manufacturing business, which based on its products are grouped in three reporting segments.

Based on a management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment, in prior years, has been allocated over the Petrochemicals & Specialties and Agri-nutrients SBUs and Hadeed according to an internally agreed consistent basis. Accordingly, segment information for prior period are restated in line with current period presentation.

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019  
(All amounts in Saudi Riyals '000 unless otherwise stated)

All intercompany transactions within the reporting segments have been appropriately eliminated. The segments' financial details are shown below:

	<b>For the three months period ended 30 June 2019</b>			
	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue . . . . .	31,503,886	1,801,592	2,561,336	35,866,814
Depreciation, amortisation and impairment . . . .	(3,779,271)	(190,366)	(270,427)	(4,240,064)
Income (loss) from operations . . . . .	4,492,692	472,367	(136,144)	4,828,915
Share of results of associates and joint ventures . . . . .	(150,113)	(24,253)	—	(174,366)
Finance cost, net . . . . .				(329,137)
Other expenses, net . . . . .				(35,509)
Income before zakat and income tax . . . . .				<u>4,289,903</u>

	<b>For the three months period ended 30 June 2018</b>			
	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue . . . . .	38,307,472	2,118,958	2,858,168	43,284,598
Depreciation, amortisation and impairment . . . .	(3,230,387)	(181,199)	(267,179)	(3,678,765)
Income from operations . . . . .	10,025,586	536,828	267,416	10,829,830
Share of results of associates and joint ventures . . . . .	205,416	124,661	—	330,077
Finance cost, net . . . . .				(284,508)
Other expenses, net . . . . .				(146,037)
Income before zakat and income tax . . . . .				<u>10,729,362</u>

	<b>For the six months period ended 30 June 2019</b>			
	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue . . . . .	63,808,021	3,612,137	5,816,525	73,236,683
Depreciation, amortisation and impairment . . . .	(7,287,566)	(392,215)	(560,314)	(8,240,095)
Income (loss) from operations . . . . .	10,089,066	1,023,278	(130,429)	10,981,915
Share of results of associates and joint ventures . . . . .	24,679	17,928	—	42,607
Finance cost, net . . . . .				(651,669)
Other expenses, net . . . . .				(76,044)
Income before zakat and income tax . . . . .				<u>10,296,809</u>

	<b>For the six months period ended 30 June 2018</b>			
	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue . . . . .	75,175,955	3,843,569	6,126,670	85,146,194
Depreciation, amortisation and impairment . . . .	(6,452,776)	(359,368)	(531,917)	(7,344,061)
Income from operations . . . . .	18,581,837	853,123	340,704	19,775,664
Share of results of associates and joint ventures . . . . .	552,053	144,247	—	696,300
Finance cost, net . . . . .				(552,756)
Other expenses, net . . . . .				(122,594)
Income before zakat and income tax . . . . .				<u>19,796,614</u>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019  
(All amounts in Saudi Riyals '000 unless otherwise stated)

	As at 30 June 2019			
	Petro-chemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets .....	<b>290,133,890</b>	<b>12,079,066</b>	<b>17,738,216</b>	<b>319,951,172</b>
Total liabilities .....	<b>97,227,120</b>	<b>2,835,085</b>	<b>4,485,624</b>	<b>104,547,829</b>

	As at 31 December 2018			
	Petro-chemicals & Specialties	Agri-nutrients	Hadeed	Consolidated
Total assets .....	290,154,965	10,975,287	18,580,622	319,710,874
Total liabilities .....	91,477,792	3,009,863	3,786,744	98,274,399

**Geographical distribution of revenue**

	For the three months period ended 30 June 2019		For the three months period ended 30 June 2018	
KSA .....	<b>6,063,890</b>	<b>17%</b>	6,554,645	15%
China .....	<b>6,044,201</b>	<b>17%</b>	7,870,178	18%
Rest of Asia .....	<b>8,109,024</b>	<b>23%</b>	8,806,734	20%
Europe .....	<b>8,548,538</b>	<b>24%</b>	10,274,476	24%
Americas .....	<b>3,201,830</b>	<b>9%</b>	3,824,293	9%
Others .....	<b>3,899,331</b>	<b>10%</b>	5,954,272	14%
	<b><u>35,866,814</u></b>	<b><u>100%</u></b>	<u>43,284,598</u>	<u>100%</u>

	For the six months period ended 30 June 2019		For the six months period ended 30 June 2018	
KSA .....	<b>13,034,169</b>	<b>18%</b>	13,109,549	15%
China .....	<b>12,334,867</b>	<b>17%</b>	15,347,448	18%
Rest of Asia .....	<b>16,316,847</b>	<b>22%</b>	17,861,195	21%
Europe .....	<b>17,272,416</b>	<b>24%</b>	20,655,426	24%
Americas .....	<b>6,457,929</b>	<b>9%</b>	7,318,436	9%
Others .....	<b>7,820,455</b>	<b>10%</b>	10,854,140	13%
	<b><u>73,236,683</u></b>	<b><u>100%</u></b>	<u>85,146,194</u>	<u>100%</u>

The revenue information above is based on the locations of the customers.

**Geographical distribution of property, plant and equipment**

	As at 30 June 2019		As at 31 December 2018	
KSA .....	<b>137,295,292</b>	<b>84%</b>	138,563,584	85%
Europe .....	<b>13,817,706</b>	<b>8%</b>	13,949,262	8%
Americas .....	<b>11,730,169</b>	<b>7%</b>	9,758,799	6%
Asia .....	<b>1,499,390</b>	<b>1%</b>	1,545,193	1%
Others .....	<b>2,943</b>	<b>—</b>	2,846	<b>—</b>
	<b><u>164,345,500</u></b>	<b><u>100%</u></b>	<u>163,819,684</u>	<u>100%</u>

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2019**  
(All amounts in Saudi Riyals '000 unless otherwise stated)

**12. Appropriations**

The Annual General Assembly (“AGA”), in its meeting held on 4 Shabaan 1440H (corresponding to 9 April 2019), approved cash dividends of SR 13.2 billion (SR 4.4 per share), which includes the interim cash dividends amounting to SR 6.6 billion (SR 2.2 per share) for the first half of 2018, which has been recognised in equity in the consolidated financial statements for the year ended 31 December 2018. The remaining of the dividend declared of SR 6.6 billion has been recognised in the interim condensed consolidated financial statements for the period ended 30 June 2019.

The AGA also approved Board of Directors’ remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 18 Ramadan 1440H (corresponding to 23 May 2019), SABIC declared interim cash dividends for the first half of the year 2019 amounting to SR 6.6 billion (at SR 2.2 per share), which has been recognised in these interim condensed consolidated financial statements for the period ended 30 June 2019.

**13. Subsequent events**

In the opinion of management, there have been no significant subsequent events since the period ended 30 June 2019, which would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.



**APPENDIX A**

**Saudi Arabian Oil Company  
2019G Nine Month Interim Period Financial Statements**

	<b>Page</b>
<b>Independent Auditor's Review Report</b> .....	<b>A-2</b>
<b>Condensed Consolidated Statement of Income</b> .....	<b>A-3</b>
<b>Condensed Consolidated Statement of Comprehensive Income</b> .....	<b>A-4</b>
<b>Condensed Consolidated Balance Sheet</b> .....	<b>A-5</b>
<b>Condensed Consolidated Statement of Changes in Equity</b> .....	<b>A-6</b>
<b>Condensed Consolidated Statement of Cash Flows</b> .....	<b>A-7</b>
<b>Notes to the Condensed Consolidated Interim Financial Report</b> .....	<b>A-8</b>



*Report on review of the condensed consolidated interim financial report*

To the shareholder of Saudi Arabian Oil Company

**Introduction**

We have reviewed the accompanying condensed consolidated balance sheet of Saudi Arabian Oil Company and its subsidiaries as at September 30, 2019 and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month and nine-month periods then ended and the related condensed consolidated statement of changes in equity for the nine-month period then ended and explanatory notes (the "condensed consolidated interim financial report"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial report in accordance with International Accounting Standard 34, 'Interim financial reporting', that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity', that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial report is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting', that is endorsed in the Kingdom of Saudi Arabia.

**PricewaterhouseCoopers**

A handwritten signature in blue ink, consisting of a large, stylized loop followed by several horizontal strokes.


Bader I. Benmohareb


License Number 471


November 1, 2019

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Note	SAR				USD*			
		3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
Revenue	11	<b>263,388</b>	316,838	<b>814,108</b>	874,708	<b>70,237</b>	84,491	<b>217,096</b>	233,256
Other income related to sales		<b>38,608</b>	46,536	<b>102,444</b>	117,452	<b>10,295</b>	12,409	<b>27,318</b>	31,320
<b>Revenue and other income related to sales</b>		<b>301,996</b>	363,374	<b>916,552</b>	992,160	<b>80,532</b>	96,900	<b>244,414</b>	264,576
Royalties and other taxes		<b>(43,825)</b>	(57,920)	<b>(137,983)</b>	(153,747)	<b>(11,687)</b>	(15,445)	<b>(36,796)</b>	(40,999)
Purchases		<b>(57,838)</b>	(54,834)	<b>(155,150)</b>	(143,023)	<b>(15,423)</b>	(14,623)	<b>(41,373)</b>	(38,140)
Producing and manufacturing		<b>(12,661)</b>	(13,238)	<b>(42,173)</b>	(37,561)	<b>(3,376)</b>	(3,530)	<b>(11,246)</b>	(10,016)
Selling, administrative and general		<b>(7,139)</b>	(7,529)	<b>(24,061)</b>	(23,385)	<b>(1,904)</b>	(2,008)	<b>(6,416)</b>	(6,236)
Exploration		<b>(1,862)</b>	(1,457)	<b>(5,389)</b>	(5,682)	<b>(496)</b>	(388)	<b>(1,437)</b>	(1,515)
Research and development		<b>(498)</b>	(531)	<b>(1,449)</b>	(1,566)	<b>(132)</b>	(142)	<b>(386)</b>	(418)
Depreciation and amortization	5,6	<b>(12,977)</b>	(10,518)	<b>(37,274)</b>	(30,281)	<b>(3,461)</b>	(2,805)	<b>(9,940)</b>	(8,075)
<b>Operating costs</b>		<b>(136,800)</b>	(146,027)	<b>(403,479)</b>	(395,245)	<b>(36,479)</b>	(38,941)	<b>(107,594)</b>	(105,399)
<b>Operating income</b>		<b>165,196</b>	217,347	<b>513,073</b>	596,915	<b>44,053</b>	57,959	<b>136,820</b>	159,177
Share of results of joint ventures and associates		<b>(1,011)</b>	(563)	<b>(2,443)</b>	(249)	<b>(269)</b>	(150)	<b>(651)</b>	(66)
Finance and other income		<b>2,705</b>	775	<b>5,873</b>	1,879	<b>721</b>	207	<b>1,566</b>	501
Finance costs		<b>(1,623)</b>	(758)	<b>(4,402)</b>	(2,145)	<b>(433)</b>	(202)	<b>(1,174)</b>	(572)
<b>Income before income taxes</b>		<b>165,267</b>	216,801	<b>512,101</b>	596,400	<b>44,072</b>	57,814	<b>136,561</b>	159,040
<b>Income taxes</b>	8	<b>(85,428)</b>	(103,164)	<b>(256,391)</b>	(283,943)	<b>(22,781)</b>	(27,511)	<b>(68,371)</b>	(75,718)
<b>Net income</b>		<b>79,839</b>	113,637	<b>255,710</b>	312,457	<b>21,291</b>	30,303	<b>68,190</b>	83,322
<b>Net income attributable to</b>									
Shareholder's equity		<b>79,788</b>	113,375	<b>255,805</b>	311,736	<b>21,277</b>	30,234	<b>68,215</b>	83,130
Non-controlling interests		<b>51</b>	262	<b>(95)</b>	721	<b>14</b>	69	<b>(25)</b>	192
		<b>79,839</b>	113,637	<b>255,710</b>	312,457	<b>21,291</b>	30,303	<b>68,190</b>	83,322

  
**Amin H. Nasser**  
 President & Chief Executive Officer


  
**Khalid H. Al-Dabbagh**  
 Senior Vice President,  
 Finance, Strategy & Development


  
**Bassam M. Asiri**  
 Controller


\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	SAR				USD*			
		3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
<b>Net income</b> .....		<b>79,839</b>	113,637	<b>255,710</b>	312,457	<b>21,291</b>	30,303	<b>68,190</b>	83,322
<b>Other comprehensive (loss) income, net of tax</b> .....	9								
<b>Items that will not be reclassified to net income</b>									
Remeasurement of post-employment benefit obligations .....		(2,569)	—	(7,237)	5,753	(684)	—	(1,929)	1,534
Change in post-employment benefit deferred tax asset due to new income tax rate .....		(284)	—	(284)	48	(76)	—	(76)	13
Changes in fair value of equity investments classified as fair value through other comprehensive income .....		427	626	571	881	114	167	152	235
<b>Items that may be reclassified subsequently to net income</b>									
Cash flow hedges and other .....		(144)	45	(626)	219	(39)	12	(167)	58
Changes in fair value of debt securities classified as fair value through other comprehensive income .....		9	51	69	(845)	2	14	18	(225)
Share of other comprehensive loss of joint ventures and associates .....		(257)	(173)	(721)	(297)	(68)	(46)	(192)	(79)
Currency translation differences ..		(1,476)	205	(2,260)	(1,065)	(394)	55	(603)	(284)
		<u>(4,294)</u>	<u>754</u>	<u>(10,488)</u>	<u>4,694</u>	<u>(1,145)</u>	<u>202</u>	<u>(2,797)</u>	<u>1,252</u>
<b>Total comprehensive income</b> .....		<b>75,545</b>	114,391	<b>245,222</b>	317,151	<b>20,146</b>	30,505	<b>65,393</b>	84,574
<b>Total comprehensive income attributable to</b>									
Shareholder's equity .....		75,850	114,046	245,982	316,831	20,227	30,413	65,595	84,489
Non-controlling interests .....		(305)	345	(760)	320	(81)	92	(202)	85
		<u>75,545</u>	<u>114,391</u>	<u>245,222</u>	<u>317,151</u>	<u>20,146</u>	<u>30,505</u>	<u>65,393</u>	<u>84,574</u>

  
**Amin H. Nasser**  
President & Chief Executive Officer

  
**Khalid H. Al-Dabbagh**  
Senior Vice President,  
Finance, Strategy & Development

  
**Bassam M. Asiri**  
Controller

\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## CONDENSED CONSOLIDATED BALANCE SHEET

	Note	SAR		USD*	
		September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	948,486	873,827	252,929	233,021
Intangible assets	6	28,369	26,896	7,565	7,172
Investments in joint ventures and associates		22,301	22,579	5,947	6,021
Deferred income tax assets		11,192	9,866	2,985	2,631
Other assets and receivables		19,048	13,127	5,079	3,501
Investments in securities		19,762	17,214	5,270	4,590
		<u>1,049,158</u>	<u>963,509</u>	<u>279,775</u>	<u>256,936</u>
<b>Current assets</b>					
Inventories		42,296	43,580	11,279	11,621
Trade receivables		88,993	93,818	23,731	25,018
Due from the Government		48,548	48,864	12,946	13,030
Other assets and receivables		10,399	13,775	2,773	3,673
Short-term investments		46,176	194	12,314	52
Cash and cash equivalents		171,842	183,152	45,824	48,841
		<u>408,254</u>	<u>383,383</u>	<u>108,867</u>	<u>102,235</u>
<b>Total assets</b>		<u>1,457,412</u>	<u>1,346,892</u>	<u>388,642</u>	<u>359,171</u>
<b>Equity and liabilities</b>					
<b>Shareholder's equity</b>					
Share capital		60,000	60,000	16,000	16,000
Additional paid-in capital		26,981	26,981	7,195	7,195
Retained earnings:					
Unappropriated		944,734	920,625	251,929	245,500
Appropriated		6,000	6,000	1,600	1,600
Other reserves	9	874	3,176	233	847
		<u>1,038,589</u>	<u>1,016,782</u>	<u>276,957</u>	<u>271,142</u>
<b>Non-controlling interests</b>		<u>10,857</u>	<u>11,653</u>	<u>2,895</u>	<u>3,107</u>
		<u>1,049,446</u>	<u>1,028,435</u>	<u>279,852</u>	<u>274,249</u>
<b>Non-current liabilities</b>					
Borrowings	10	133,288	71,329	35,543	19,021
Deferred income tax liabilities		33,210	23,877	8,856	6,367
Post-employment benefit obligations		38,370	23,209	10,232	6,189
Provisions		16,371	15,606	4,366	4,162
		<u>221,239</u>	<u>134,021</u>	<u>58,997</u>	<u>35,739</u>
<b>Current liabilities</b>					
Trade and other payables		72,355	72,286	19,294	19,276
Obligations to the Government:					
Income taxes	8	61,939	70,299	16,517	18,746
Royalties		12,427	11,862	3,314	3,164
Borrowings	10	40,006	29,989	10,668	7,997
		<u>186,727</u>	<u>184,436</u>	<u>49,793</u>	<u>49,183</u>
		<u>407,966</u>	<u>318,457</u>	<u>108,790</u>	<u>84,922</u>
<b>Total equity and liabilities</b>		<u>1,457,412</u>	<u>1,346,892</u>	<u>388,642</u>	<u>359,171</u>



**Amin H. Nasser**  
President & Chief Executive Officer



**Khalid H. Al-Dabbagh**  
Senior Vice President,  
Finance, Strategy & Development



**Bassam M. Asiri**  
Controller

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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SAR							USD*	
	Shareholder's equity							Total	Total
	Share capital	Stated capital	Additional paid-in capital	Retained earnings		Other reserves (Note 9)	Non-controlling interests		
Unappropriated				Appropriated					
<b>Balance at January 1, 2018</b> .....	—	60,000	26,981	715,107	6,000	5,670	12,556	826,314	220,350
Net income .....	—	—	—	311,736	—	—	721	312,457	83,322
Other comprehensive income (loss) .....	—	—	—	—	—	5,095	(401)	4,694	1,252
<b>Total comprehensive income</b> .....	—	—	—	311,736	—	5,095	320	317,151	84,574
Conversion to joint stock company (Note 1) ...	60,000	(60,000)	—	—	—	—	—	—	—
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	5,801	—	(5,801)	—	—	—
Dividends .....	—	—	—	(168,750)	—	—	—	(168,750)	(45,000)
Change in control of an affiliate .....	—	—	—	—	—	—	79	79	21
Dividends to non-controlling interests .....	—	—	—	—	—	—	(902)	(902)	(240)
<b>Balance at September 30, 2018</b> .....	60,000	—	26,981	863,894	6,000	4,964	12,053	973,892	259,705
<b>Balance at January 1, 2019</b> .....	60,000	—	26,981	920,625	6,000	3,176	11,653	1,028,435	274,249
Net income (loss) .....	—	—	—	255,805	—	—	(95)	255,710	68,190
Other comprehensive loss .....	—	—	—	—	—	(9,823)	(665)	(10,488)	(2,797)
<b>Total comprehensive income (loss)</b> .....	—	—	—	255,805	—	(9,823)	(760)	245,222	65,393
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	(7,521)	—	7,521	—	—	—
Dividends .....	—	—	—	(224,175)	—	—	—	(224,175)	(59,780)
Dividends to non-controlling interests .....	—	—	—	—	—	—	(36)	(36)	(10)
<b>Balance at September 30, 2019</b> .....	60,000	—	26,981	944,734	6,000	874	10,857	1,049,446	279,852



**Amin H. Nasser**  
President & Chief Executive Officer



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Senior Vice President,  
Finance, Strategy & Development




**Bassam M. Asiri**  
Controller


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## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	SAR				USD*			
		3 <sup>rd</sup> quarter	3 <sup>rd</sup> quarter	Nine months	Nine months	3 <sup>rd</sup> quarter	3 <sup>rd</sup> quarter	Nine months	Nine months
		2019	2018	2019	2018	2019	2018	2019	2018
<b>Income before income taxes</b>		<b>165,267</b>	216,801	<b>512,101</b>	596,400	<b>44,072</b>	57,814	<b>136,561</b>	159,040
<b>Adjustments to reconcile income before income taxes to net cash provided by operating activities</b>									
Depreciation and amortization	5,6	12,977	10,518	37,274	30,281	3,461	2,805	9,940	8,075
Exploration and evaluation costs written off		835	247	2,374	1,865	223	65	633	497
Gain on remeasurement of existing interest in Saudi Aramco Shell Refinery Company ("SASREF")	17(a)(ii)	(1,278)	—	(1,278)	—	(341)	—	(341)	—
Share of results of joint ventures and associates		1,011	563	2,443	249	269	150	651	66
Finance income		(1,411)	(734)	(4,125)	(1,730)	(376)	(195)	(1,100)	(461)
Finance costs		1,623	758	4,402	2,145	433	202	1,174	572
Dividends from investments in securities		(7)	(40)	(439)	(143)	(2)	(10)	(117)	(38)
Change in fair value of investments through profit or loss		(123)	(849)	(339)	(882)	(32)	(226)	(90)	(235)
Change in joint ventures and associates inventory profit elimination		(3)	175	84	344	(1)	47	22	92
Other		(321)	797	(124)	(859)	(86)	213	(33)	(228)
<b>Change in working capital</b>									
Inventories		3,485	(4,231)	1,901	(11,320)	929	(1,129)	507	(3,019)
Trade receivables		12,492	(10,146)	5,034	(41,428)	3,332	(2,706)	1,343	(11,048)
Due from the Government		(1,109)	(6,544)	316	(12,117)	(296)	(1,745)	84	(3,231)
Other assets and receivables		2,077	(897)	4,639	(5,680)	554	(239)	1,237	(1,514)
Trade and other payables		1,107	6,779	(3,221)	12,714	295	1,807	(859)	3,390
Royalties payable		(563)	1,779	565	(5)	(150)	474	150	(2)
<b>Other changes</b>									
Other assets and receivables		(1,895)	(220)	(7,627)	(1,336)	(506)	(58)	(2,034)	(356)
Provisions		(250)	349	487	461	(67)	93	130	123
Post-employment benefit obligations		192	448	1,254	(2,305)	51	119	334	(615)
Settlement of income and other taxes	8(c)	(86,464)	(95,454)	(251,390)	(251,342)	(23,057)	(25,454)	(67,037)	(67,024)
<b>Net cash provided by operating activities</b>		<b>107,642</b>	120,099	<b>304,331</b>	315,312	<b>28,705</b>	32,027	<b>81,155</b>	84,084
<b>Capital expenditures</b>	4	<b>(30,352)</b>	(31,955)	<b>(84,615)</b>	(93,696)	<b>(8,094)</b>	(8,522)	<b>(22,564)</b>	(24,986)
Acquisition of affiliates, net of cash acquired		(1,132)	—	(1,517)	(2,662)	(302)	—	(405)	(710)
Distributions from joint ventures and associates		40	92	700	1,080	11	25	187	288
Additional investment in joint ventures and associates		(25)	(367)	(346)	(390)	(6)	(98)	(92)	(104)
Dividends from investments in securities		7	40	439	143	2	10	117	38
Interest received		1,026	675	3,489	1,629	273	180	930	434
Net investments in securities		24	(322)	(583)	(568)	7	(85)	(155)	(151)
Net (purchases) maturities of short-term investments		(724)	1,936	(45,982)	6,041	(194)	516	(12,262)	1,611
<b>Net cash used in investing activities</b>		<b>(31,136)</b>	(29,901)	<b>(128,415)</b>	(88,423)	<b>(8,303)</b>	(7,974)	<b>(34,244)</b>	(23,580)
Dividends		(50,212)	(48,750)	(224,175)	(168,750)	(13,390)	(13,000)	(59,780)	(45,000)
Dividends paid to non-controlling interests		(14)	(90)	(36)	(902)	(4)	(24)	(10)	(240)
Interest paid		(953)	(368)	(3,329)	(1,683)	(254)	(98)	(888)	(449)
Proceeds from borrowings		1,211	6,778	49,174	11,269	323	1,807	13,113	3,004
Repayments of borrowings		(2,921)	(3,893)	(8,860)	(8,764)	(780)	(1,038)	(2,363)	(2,337)
<b>Net cash used in financing activities</b>		<b>(52,889)</b>	(46,323)	<b>(187,226)</b>	(168,830)	<b>(14,105)</b>	(12,353)	<b>(49,928)</b>	(45,022)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>23,617</b>	43,875	<b>(11,310)</b>	58,059	<b>6,297</b>	11,700	<b>(3,017)</b>	15,482
Cash and cash equivalents at beginning of the period		148,225	95,426	183,152	81,242	39,527	25,447	48,841	21,665
<b>Cash and cash equivalents at end of the period</b>		<b>171,842</b>	139,301	<b>171,842</b>	139,301	<b>45,824</b>	37,147	<b>45,824</b>	37,147

  
**Amin H. Nasser**  
President & Chief Executive Officer

  
**Khalid H. Al-Dabbagh**  
Senior Vice President,  
Finance, Strategy & Development

  
**Bassam M. Asiri**  
Controller

\* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

### 1. General information

The Saudi Arabian Oil Company (the “Company”), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the “Kingdom”), is engaged to prospect, explore, drill and extract hydrocarbon substances (“Upstream”) and process, manufacture, refine and market these hydrocarbon substances (“Downstream”). The Company was formed on November 13, 1988 by Royal Decree No. M/8; however, its history dates back to May 29, 1933 when the Kingdom granted a concession to the Company’s predecessor the right to, among other things, explore the Kingdom for hydrocarbons. Effective January 1, 2018, Council of Minister’s Resolution No. 180, dated 1/4/1439H (December 19, 2017) converted the Company to a Saudi joint stock company with new Bylaws.

On September 14, 2019, the Abqaiq plants and Khurais processing facility were attacked causing damage to the facilities and disrupting operations. No injuries or fatalities were reported during the incident at either facility. As a result of these attacks, crude oil production was temporarily reduced. Since the attacks, a number of actions have been taken to restore full operations safely. In addition, Saudi Aramco is continuing to evaluate the full cost of repairs. Saudi Aramco does not expect these attacks to have a material impact on its operations or business results.

The condensed consolidated interim financial report of the Company and its subsidiaries (together “Saudi Aramco”) was approved by the Board of Directors on November 1, 2019.

### 2. Basis of preparation and other significant accounting policies

The condensed consolidated interim financial report has been prepared in accordance with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting, that is endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). This condensed consolidated interim financial report is consistent with the accounting policies and methods of computation and presentation set out in Saudi Aramco’s December 31, 2018 consolidated financial statements, except for, new and amended standards disclosed below. There are no changes to the significant judgements and estimates disclosed in the December 31, 2018 consolidated financial statements, other than for those disclosed in this condensed consolidated interim financial report.

The results for the interim periods are unaudited and include all adjustments necessary for a fair presentation of the results for the periods presented. This condensed consolidated interim financial report should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom, and other standards and pronouncements issued by SOCPA. The consolidated financial statements for the year ended December 31, 2018 are also in compliance with IFRS as issued by the International Accounting Standards Board (“IASB”).

Translations from SAR to USD presented as supplementary information in the Condensed Consolidated Statement of Income, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, and Condensed Consolidated Statement of Cash Flows at September 30, 2019 and December 31, 2018 and for the three and nine-month periods ended September 30, 2019 and 2018, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the balance sheet dates.

#### (a) Fiscal regime changes

On September 17, 2019, the following changes to the fiscal regime under which the Company operates were announced:

- (i) The Company and the Saudi Arabian Government (the “Government”) executed an amendment to the Concession Agreement effective January 1, 2020, which will change the effective royalty rate applied to crude oil production based on the Company’s official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 15% (from 20%) applied to prices up to \$70 per barrel, increasing to 45% (from 40%) applied to prices above \$70 per barrel and 80% (from 50%) applied to prices above \$100 per barrel.
- (ii) Effective January 1, 2020, LPGs and certain other products will be added to the price equalization mechanism to compensate the Company for the difference between the Government established price and the product’s equalization price for the supply of those products by the Company in the local market.



(iii) The Government, through Royal Decree, established that effective January 1, 2020 the tax rate applicable to the Company's Downstream activities will be reduced from 50% to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law") on the condition that the Company consolidate its Downstream business under the control of a separate wholly owned subsidiary before December 31, 2024 (Note 8).

**(b) New or amended standards**

(i) Saudi Aramco adopted for the first time the following IASB pronouncement, as endorsed in the Kingdom, effective for annual periods beginning on or after January 1, 2019:

**IFRS 16, Leases**

IFRS 16, Leases, as issued by the IASB in January 2016, replaced IAS 17, Leases that relates to the recognition, measurement, presentation and disclosure of leases. Saudi Aramco adopted IFRS 16, using the modified retrospective approach, from its mandatory adoption date of January 1, 2019.

Until 2018, leased assets were classified as either finance or operating leases. Payments made under operating leases were charged to net income on a straight-line basis over the period of the lease. On adoption of IFRS 16, right-of-use assets and lease liabilities of SAR 26,051 were recognized for previously classified operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. For leases previously classified as finance leases, Saudi Aramco continued to recognize the same carrying amount of the lease asset and lease liability as immediately before transition. There was no impact of adoption of IFRS 16 on the opening retained earnings at January 1, 2019.

In accordance with the transition provisions in IFRS 16, comparative figures have not been restated and the following practical expedients were applied on transition: a) the use of a single discount rate for a portfolio of leases with reasonably similar characteristics; b) reliance on previous assessments on whether leases are onerous; c) the accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases; d) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; e) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and f) not to reassess whether a contract is, or contains a lease.

The table below presents the reconciliation between operating lease commitments disclosed in the consolidated financial statements for the year ended December 31, 2018 and the lease liability recognized at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.1%.

	<b>January 1, 2019</b>
Operating lease commitments disclosed at December 31, 2018 .....	<b>35,565</b>
Discounted using Saudi Aramco's incremental borrowing rate at January 1, 2019 .....	<b>27,814</b>
Add: finance lease liabilities recognized at December 31, 2018 .....	<b>13,058</b>
(Less): short-term leases recognized on a straight-line basis .....	<b>(1,647)</b>
(Less): low value leases recognized on a straight-line basis as expense .....	<b>(116)</b>
Lease liability recognized at January 1, 2019 .....	<b>39,109</b>
Current lease liabilities .....	<b>6,439</b>
Non-current lease liabilities .....	<b>32,670</b>
	<b>39,109</b>

Saudi Aramco's portfolio of leased assets is mainly comprised of drilling rigs, marine vessels, industrial facilities, equipment, aircraft and vehicles. After the transition date of January 1, 2019, the following recognition, measurement, presentation and disclosure principles are applied to account for leases:

- Right-of-use assets are measured at cost, which comprises lease liabilities at initial measurement, any initial direct costs incurred, and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are included under property, plant and equipment (Note 5). Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset by the end of the lease term or if the

cost of the asset reflects the exercise of the purchase option, in which case, right of use assets are depreciated over the useful life of the underlying asset.

- Lease liabilities are initially measured at the present value of lease payments. Lease payments include fixed lease payments, variable lease payments that depend on an index or rate, amounts payable for guaranteed residual values and payments to be made under extension or purchase or termination options, where applicable. Lease liabilities are included under borrowings (Note 10). Lease payments are allocated between the liability and finance costs. Finance costs are recorded as an expense in the Condensed Consolidated Statement of Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- Saudi Aramco has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments under short-term and low-value leases are recorded on a straight-line basis over the lease term.

#### *Significant accounting judgments and estimates*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The IFRS Interpretations Committee reached an agenda decision at its March 2019 meeting in relation to the accounting treatment for physical settlement of contracts to buy or sell non-financial items (e.g. oil and gas products), that do not meet the own use exemption under IFRS 9, Financial Instruments. The Committee determined that such derivative contracts are within the scope of IFRS 9. Saudi Aramco is currently assessing the impact of the agenda decision on its consolidated financial statements.

Other standards did not have any impact on Saudi Aramco's accounting policies and did not require retrospective adjustments.

- (ii) Saudi Aramco has not early adopted any new accounting standards, interpretations or amendments that are issued but not yet effective.

#### **(c) Reclassifications**

Certain comparative amounts in the Condensed Consolidated Statement of Income for the three and nine-month periods ended September 30, 2018 have been reclassified to conform to the current period presentation. Such reclassifications did not impact the previously reported net income.

### **3. Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco's financial assets and liabilities that are measured and recognized at amortized cost are not materially different from their carrying amounts at the end of the reporting period.

The following table presents Saudi Aramco's assets and liabilities that are measured and recognized at fair value at September 30, 2019 and December 31, 2018 based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at September 30, 2019. There were no changes made to any of the valuation techniques and valuation processes applied as of December 31, 2018 and changes in unobservable inputs are not expected to materially impact the fair value.

<u>Assets</u>	<u>Level 1<sup>i</sup></u>	<u>Level 2<sup>ii</sup></u>	<u>Level 3<sup>iii</sup></u>	<u>Total</u>
<b>September 30, 2019:</b>				
Investments in securities:				
Equity securities at Fair Value Through Other Comprehensive Income ("FVOCI")	8,608	—	1,284	9,892
Debt securities at FVOCI	13	4,389	—	4,402
Equity securities at Fair Value Through Profit Or Loss ("FVPL")	—	1,142	4,662	5,804
Trade receivables related to contracts with provisional pricing arrangements	—	—	62,507	62,507
	<u>8,621</u>	<u>5,531</u>	<u>68,453</u>	<u>82,605</u>
Other assets and receivables:				
Interest rate swaps	—	85	—	85
Commodity swaps	135	834	9	978
Currency forward contracts	—	18	—	18
	<u>135</u>	<u>937</u>	<u>9</u>	<u>1,081</u>
<b>Total assets</b>	<u>8,756</u>	<u>6,468</u>	<u>68,462</u>	<u>83,686</u>
December 31, 2018:				
Investments in securities:				
Equity securities at FVOCI	7,324	—	1,293	8,617
Debt securities at FVOCI	19	3,908	—	3,927
Equity securities at FVPL	—	991	4,237	5,228
Trade receivables related to contracts with provisional pricing arrangements	—	—	73,509	73,509
	<u>7,343</u>	<u>4,899</u>	<u>79,039</u>	<u>91,281</u>
Other assets and receivables:				
Interest rate swaps	—	191	—	191
Commodity swaps	184	2,393	—	2,577
Currency forward contracts	—	33	—	33
	<u>184</u>	<u>2,617</u>	<u>—</u>	<u>2,801</u>
<b>Total assets</b>	<u>7,527</u>	<u>7,516</u>	<u>79,039</u>	<u>94,082</u>
<b>Liabilities</b>				
	<u>Level 1<sup>i</sup></u>	<u>Level 2<sup>ii</sup></u>	<u>Level 3<sup>iii</sup></u>	<u>Total</u>
<b>September 30, 2019:</b>				
Trade and other payables				
Interest rate swaps	—	440	—	440
Commodity swaps	—	390	148	538
Currency forward contracts	—	198	—	198
	<u>—</u>	<u>1,028</u>	<u>148</u>	<u>1,176</u>
December 31, 2018:				
Trade and other payables				
Interest rate swaps	—	71	—	71
Commodity swaps	—	1,069	—	1,069
Currency forward contracts	—	180	—	180
	<u>—</u>	<u>1,320</u>	<u>—</u>	<u>1,320</u>

i) Quoted prices (unadjusted) in active markets for identical assets or liabilities

ii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

iii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The changes in Level 3 investments in securities and other assets and receivables for the nine-month period ended September 30, 2019 and the year ended December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
<b>Beginning</b> .....	<b>5,530</b>	5,283
Net additions .....	<b>184</b>	389
Acquisition .....	—	11
Realized gain .....	—	8
Net movement in unrealized fair value gain/(loss) .....	<b>232</b>	(161)
Transfer from level 2 .....	<b>9</b>	—
<b>Ending</b> .....	<b>5,955</b>	<b>5,530</b>

The movement in trade receivables related to contracts with provisional pricing arrangements mainly relates to sales transactions, net of settlements, made during the period, resulting from contracts with customers. Unrealized fair value movements on these trade receivables are not significant.

#### 4. Operating segments

Saudi Aramco is engaged to prospect, explore, drill, extract, process, manufacture, refine and market hydrocarbon substances within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside of the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At September 30, 2019, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into a Corporate segment. Upstream activities include crude oil, natural gas and natural gas liquids exploration, field development and production. Downstream activities include the refining, logistics, power generation, and the marketing of crude oil, petroleum and petrochemical products and related services to international and domestic customers. Corporate activities include primarily supporting services including Human Resources, Finance and IT not allocated to Upstream and Downstream. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

There are no differences from the 2018 consolidated financial statements in the basis of segmentation or in the basis of measurement of segment earnings before interest and income taxes.

Information by segments for the three-month period ended September 30, 2019 is as follows:

	Upstream	Downstream	Corporate	Eliminations	Consolidated
External revenue .....	<b>168,573</b>	<b>94,502</b>	<b>313</b>	—	<b>263,388</b>
Other income related to sales .....	<b>10,985</b>	<b>27,623</b>	—	—	<b>38,608</b>
Inter-segment revenue .....	<b>57,156</b>	<b>8,440</b>	<b>49</b>	<b>(65,645)</b>	—
Earnings (losses) before interest and income taxes .....	<b>167,626</b>	<b>3,004</b>	<b>(2,708)</b>	<b>(2,443)</b>	<b>165,479</b>
Finance income .....					<b>1,411</b>
Finance costs .....					<b>(1,623)</b>
Income before income taxes .....					<b>165,267</b>
Capital expenditures—cash basis .....	<b>23,296</b>	<b>6,443</b>	<b>613</b>	—	<b>30,352</b>

Information by segments for the three-month period ended September 30, 2018 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	206,939	109,648	251	—	316,838
Other income related to sales . . . . .	12,784	33,752	—	—	46,536
Inter-segment revenue . . . . .	78,953	11,282	58	(90,293)	—
Earnings (losses) before interest and income taxes . . . . .	215,896	7,083	(4,062)	(2,092)	216,825
Finance income . . . . .					734
Finance costs . . . . .					(758)
Income before income taxes . . . . .					216,801
Capital expenditures—cash basis . . . . .	24,515	6,872	568	—	31,955

Information by segments for the nine-month period ended September 30, 2019 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	<b>525,101</b>	<b>288,157</b>	<b>850</b>	—	<b>814,108</b>
Other income related to sales . . . . .	<b>26,155</b>	<b>76,289</b>	—	—	<b>102,444</b>
Inter-segment revenue . . . . .	<b>179,676</b>	<b>25,151</b>	<b>196</b>	<b>(205,023)</b>	—
Earnings (losses) before interest and income taxes . . . . .	<b>521,734</b>	<b>4,873</b>	<b>(8,711)</b>	<b>(5,518)</b>	<b>512,378</b>
Finance income . . . . .					<b>4,125</b>
Finance costs . . . . .					<b>(4,402)</b>
Income before income taxes . . . . .					<b>512,101</b>
Capital expenditures—cash basis . . . . .	<b>65,226</b>	<b>18,007</b>	<b>1,382</b>	—	<b>84,615</b>

Information by segments for the nine-month period ended September 30, 2018 is as follows:

	<u>Upstream</u>	<u>Downstream</u>	<u>Corporate</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenue . . . . .	571,573	302,336	799	—	874,708
Other income related to sales . . . . .	29,428	88,024	—	—	117,452
Inter-segment revenue . . . . .	217,103	24,100	178	(241,381)	—
Earnings (losses) before interest and income taxes . . . . .	593,077	20,833	(8,540)	(8,555)	596,815
Finance income . . . . .					1,730
Finance costs . . . . .					(2,145)
Income before income taxes . . . . .					596,400
Capital expenditures—cash basis . . . . .	69,078	22,957	1,661	—	93,696

## 5. Property, plant and equipment

	Crude oil facilities	Refinery and petrochemical facilities	Gas and NGL facilities	General service plant	Construction in progress	Total
<b>Cost</b>						
January 1, 2019	503,281	205,233	361,141	88,482	257,607	1,415,744
Adjustment for change in accounting policy (Note 2)	6,337	8,005	254	11,455	—	26,051
Additions	3,541	2,681	226	1,110	76,535	84,093
Acquisition (Note 17(a)(ii))	—	5,063	—	—	417	5,480
Derecognition on acquisition of joint operation (Note 17(a)(ii))	—	(5,513)	—	—	(417)	(5,930)
Construction completed	17,121	4,091	19,944	2,548	(43,704)	—
Currency translation differences	—	(4,336)	—	(1)	(227)	(4,564)
Transfers	(144)	(161)	307	3	(305)	(300)
Transfer of exploration and evaluation assets	—	—	—	—	1,425	1,425
Retirements and sales	(1,930)	(178)	(65)	(477)	—	(2,650)
<b>September 30, 2019</b>	<b>528,206</b>	<b>214,885</b>	<b>381,807</b>	<b>103,120</b>	<b>291,331</b>	<b>1,519,349</b>
<b>Accumulated depreciation</b>						
January 1, 2019	(253,544)	(74,438)	(160,220)	(53,715)	—	(541,917)
Additions	(13,472)	(8,081)	(10,239)	(4,633)	—	(36,425)
Derecognition on acquisition of joint operation (Note 17(a)(ii))	—	4,370	—	—	—	4,370
Currency translation differences	—	1,694	—	—	—	1,694
Transfers	(25)	25	(354)	6	—	(348)
Retirements and sales	1,104	170	46	443	—	1,763
<b>September 30, 2019</b>	<b>(265,937)</b>	<b>(76,260)</b>	<b>(170,767)</b>	<b>(57,899)</b>	<b>—</b>	<b>(570,863)</b>
<b>Property, plant and equipment—net,</b>						
<b>September 30, 2019</b>	<b>262,269</b>	<b>138,625</b>	<b>211,040</b>	<b>45,221</b>	<b>291,331</b>	<b>948,486</b>

The following table presents depreciation charges and net carrying amounts of right-of-use assets by class of assets.

	Depreciation expense Nine months 2019	Right-of-use assets at September 30 2019
Crude oil facilities	1,485	8,053
Refinery and petrochemical facilities	911	9,745
Gas and NGL facilities	132	222
General service plant	2,772	22,817
	<b>5,300</b>	<b>40,837</b>

## 6. Intangible assets

	Exploration and evaluation	Brands and trademarks	Franchise/ customer relationships	Computer software	Other	Total
<b>Cost</b>						
January 1, 2019	18,916	4,827	1,263	4,310	2,157	31,473
Additions	5,454	—	—	286	19	5,759
Acquisition (Note 17(a)(ii))	—	—	—	66	532	598
Derecognition on acquisition of joint operation (Note 17(a)(ii))	—	—	—	(93)	—	(93)
Currency translation differences	—	(120)	(38)	—	(35)	(193)
Transfers	—	—	(49)	(179)	24	(204)
Transfer of exploration and evaluation assets	(1,425)	—	—	—	—	(1,425)
Write-offs	(2,374)	—	—	—	—	(2,374)
<b>September 30, 2019</b>	<b>20,571</b>	<b>4,707</b>	<b>1,176</b>	<b>4,390</b>	<b>2,697</b>	<b>33,541</b>
<b>Accumulated amortization:</b>						
January 1, 2019	—	(1,046)	(715)	(2,541)	(275)	(4,577)
Additions	—	(323)	(130)	(296)	(100)	(849)
Derecognition on acquisition of joint operation (Note 17(a)(ii))	—	—	—	60	—	60
Currency translation differences	—	5	4	—	1	10
Transfers	—	45	49	44	46	184
<b>September 30, 2019</b>	<b>—</b>	<b>(1,319)</b>	<b>(792)</b>	<b>(2,733)</b>	<b>(328)</b>	<b>(5,172)</b>
<b>Intangible assets—net, September 30, 2019</b>	<b>20,571</b>	<b>3,388</b>	<b>384</b>	<b>1,657</b>	<b>2,369</b>	<b>28,369</b>

## 7. Investments in securities

On April 1, 2019, Saudi Aramco received 23.1 million common shares of Idemitsu Kosan Co., Ltd. (“Idemitsu”) in exchange for its shareholding of 56.4 million common shares of Showa Shell Sekiyu, K.K. (“Showa Shell”). As a result of this transaction, Saudi Aramco’s interest in Idemitsu is 7.7% of Idemitsu’s total common shares. The investment in Idemitsu in the amount of SAR 2,454 at September 30, 2019 is accounted for at fair value through other comprehensive income.

## 8. Income taxes

### (a) Kingdom income tax rates

The Company is subject to an income tax rate of 20% on the activities of exploration and production of non-associated natural gas, including gas condensates, as well as the collection, treatment, processing, fractionation and transportation of associated and non-associated natural gas and their liquids, gas condensates and other associated elements, and an income tax rate of 50% on all other activities, in accordance with the Tax Law.

Effective January 1, 2020, the tax rate applicable to the Company’s Downstream activities will be reduced from 50% to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Tax Law, on the condition that the Company consolidate its Downstream business under the control of a separate wholly owned subsidiary before December 31, 2024. The Company expects to transfer all its Downstream activities into a separate legal entity or entities within the period specified (Note 2).

Income tax expense is primarily based on income arising in Saudi Arabia.

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
Income before income taxes	165,267	216,801	512,101	596,400
Income taxes at the Kingdom's statutory tax rates	81,857	104,545	251,010	289,547
Tax effect of:				
Impact of new income tax rates on net deferred tax assets	2,655	—	2,655	(3,885)
Impact of change from zakat to income tax on investments in shares of resident capital companies	—	—	—	1,287
Income not subject to tax at statutory rates and other	916	(1,381)	2,726	(3,006)
	<u>85,428</u>	<u>103,164</u>	<u>256,391</u>	<u>283,943</u>

**(b) Income tax expense**

	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
Current income tax—Kingdom	78,380	98,918	242,777	273,676
Current income tax—Foreign	25	284	201	742
Deferred income tax—Kingdom:				
Impact of change in income tax rates	2,655	—	2,655	(3,885)
Charge for the period	4,350	3,935	10,011	13,458
Deferred income tax—Foreign	18	27	747	(48)
	<u>85,428</u>	<u>103,164</u>	<u>256,391</u>	<u>283,943</u>

**(c) Income tax obligation to the Government**

	2019	2018
<b>January 1</b>	<b>70,299</b>	59,584
Provided during the period	242,777	273,676
Payments during the period by Saudi Arabian Oil Company (Note 15)	(121,526)	(129,833)
Payments during the period by subsidiaries and joint operations	(888)	(842)
Settlements of due from the Government	(125,318)	(116,644)
Other settlements	(3,405)	(4,320)
<b>September 30</b>	<b>61,939</b>	81,621

**9. Other reserves**

	Currency translation differences	Investments in securities at FVOCI	Post-employment benefit obligations	Cash flow hedges and other	Share of other comprehensive income (loss) of joint ventures and associates		Total
					Post-employment benefit obligations and other	Foreign currency translation gains (losses)	
<b>January 1, 2019</b>	129	2,919	—	(74)	4	198	3,176
Current period change	(2,260)	1,349	—	(626)	(649)	(72)	(2,258)
Remeasurement loss	—	—	(13,907)	—	—	—	(13,907)
Transfer to retained earnings	—	—	7,521	—	—	—	7,521
Tax effect	—	(709)	6,386	—	—	—	5,677
Less: amounts related to non-controlling interests	657	—	—	8	—	—	665
<b>September 30, 2019</b>	<b>(1,474)</b>	<b>3,559</b>	<b>—</b>	<b>(692)</b>	<b>(645)</b>	<b>126</b>	<b>874</b>



## 10. Borrowings

	September 30, 2019	December 31, 2018
<b>Non-current:</b>		
Borrowings	23,739	25,934
Debentures	60,543	17,014
Sukuk (Shari'a compliant)	12,736	12,821
Lease liabilities (Note 2)	32,994	12,329
Other <sup>(1)</sup>	3,276	3,231
	<u>133,288</u>	<u>71,329</u>
<b>Current:</b>		
Short-term bank financing	27,584	23,174
Borrowings	5,488	5,906
Sukuk (Shari'a compliant)	180	180
Lease liabilities (Note 2)	6,754	729
	<u>40,006</u>	<u>29,989</u>

(1) Other borrowings are comprised of loans from non-financial institutions under commercial terms.

On April 16, 2019, the Company issued a series of USD unsecured notes aggregating \$12,000 (SAR 45,000) and consisting of three-year maturities for \$1,000 (SAR 3,750) with a coupon rate of 2.75%, five-year maturities for \$2,000 (SAR 7,500) with a coupon rate of 2.875%, ten-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 3.5%, twenty-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 4.25%, and thirty-year maturities for \$3,000 (SAR 11,250) with a coupon rate of 4.375%. The notes are issued in accordance with Rule 144A/Reg S offering requirements under the U.S. Securities Act of 1933, as amended. Interest is payable semi-annually on April 16 and October 16. The notes are listed on the London Stock Exchange's Regulated Market and the proceeds are for general corporate purposes. At initial recognition, the Company recorded an amount of SAR 44,460 for the issuance proceeds, net of discounts and estimated transaction costs. Discounts and transaction costs are amortized using the effective interest method and are reflected as finance costs in the Condensed Consolidated Statement of Income.

## 11. Revenue

	3rd quarter 2019	3rd quarter 2018	Nine months 2019	Nine months 2018
Revenue from contracts with customers	261,733	314,131	807,670	867,572
Movement between provisional and final prices	616	2,029	3,973	4,538
Other revenue	1,039	678	2,465	2,598
	<u>263,388</u>	<u>316,838</u>	<u>814,108</u>	<u>874,708</u>

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 10 to 90 days from the invoice date depending on specific terms of the contract.

Transaction prices are not adjusted for the time value of money as Saudi Aramco does not expect to have any contracts where the period between the transfer of product to the customer and payment by the customer exceeds one year.

## Disaggregation of revenue from contracts with customers

Saudi Aramco's revenue from contracts with customers according to product type and source is as follows:

	3 <sup>rd</sup> quarter 2019			
	Upstream	Downstream	Corporate	Total
Crude oil	154,199	6,293	—	160,492
Refined and chemical products	—	87,270	—	87,270
Natural gas and NGLs	13,572	399	—	13,971
<b>Revenue from contracts with customers</b>	<b>167,771</b>	<b>93,962</b>	<b>—</b>	<b>261,733</b>
Movement between provisional and final prices	547	69	—	616
Other revenue	255	471	313	1,039
<b>External revenue</b>	<b>168,573</b>	<b>94,502</b>	<b>313</b>	<b>263,388</b>
	3 <sup>rd</sup> quarter 2018			
	Upstream	Downstream	Corporate	Total
Crude oil	184,659	409	—	185,068
Refined and chemical products	—	107,352	—	107,352
Natural gas and NGLs	20,251	1,460	—	21,711
<b>Revenue from contracts with customers</b>	<b>204,910</b>	<b>109,221</b>	<b>—</b>	<b>314,131</b>
Movement between provisional and final prices	2,029	—	—	2,029
Other revenue	—	427	251	678
<b>External revenue</b>	<b>206,939</b>	<b>109,648</b>	<b>251</b>	<b>316,838</b>
	Nine months 2019			
	Upstream	Downstream	Corporate	Total
Crude oil	476,784	15,362	—	492,146
Refined and chemical products	—	269,902	—	269,902
Natural gas and NGLs	44,120	1,502	—	45,622
<b>Revenue from contracts with customers</b>	<b>520,904</b>	<b>286,766</b>	<b>—</b>	<b>807,670</b>
Movement between provisional and final prices	3,723	250	—	3,973
Other revenue	474	1,141	850	2,465
<b>External revenue</b>	<b>525,101</b>	<b>288,157</b>	<b>850</b>	<b>814,108</b>
	Nine months 2018			
	Upstream	Downstream	Corporate	Total
Crude oil	515,701	6,901	—	522,602
Refined and chemical products	—	290,629	—	290,629
Natural gas and NGLs	50,893	3,448	—	54,341
<b>Revenue from contracts with customers</b>	<b>566,594</b>	<b>300,978</b>	<b>—</b>	<b>867,572</b>
Movement between provisional and final prices	4,455	83	—	4,538
Other revenue	524	1,275	799	2,598
<b>External revenue</b>	<b>571,573</b>	<b>302,336</b>	<b>799</b>	<b>874,708</b>

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
Crude oil	912	241	2,049	1,319
Refined and chemical products	14,941	13,942	41,910	41,678
Natural gas and NGLs	4,533	4,359	11,955	12,215
	<b>20,386</b>	<b>18,542</b>	<b>55,914</b>	<b>55,212</b>

## 12. Non-cash transactions in the Condensed Consolidated Statement of Cash Flows

Investing activities for the three and the nine-month periods ended September 30, 2019 include additions to right-of-use assets of SAR 2,291 and SAR 6,248 (2018: finance lease assets of SAR 7,970 and 7,970), respectively, subordinated shareholder loans and trade receivables with a joint venture that were converted to equity of SAR 975 and SAR 2,804 (2018: SAR 524 and SAR 1,499), respectively, and asset retirement provisions of SAR 104 and SAR 280 (2018: SAR 114 and SAR 276), respectively.

## 13. Commitments

### (a) Capital commitments

Capital expenditures contracted for but not yet incurred are SAR 147,304 and SAR 90,034 at September 30, 2019 and December 31, 2018, respectively.

### (b) Sadara Chemical Company (“Sadara”)

In May 2019, Saudi Aramco committed to increase the total financing facility provided to Sadara from SAR 25,071 to SAR 32,035. As of September 30, 2019, SAR 27,387 (December 31, 2018: SAR 25,071) has been drawn down.

## 14. Contingencies

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

## 15. Payments to the Government by Saudi Arabian Oil Company

	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
Income taxes (Note 8(c))	<b>39,787</b>	49,976	<b>121,526</b>	129,833
Royalties	<b>41,842</b>	55,222	<b>130,136</b>	153,476
Dividends	<b>50,212</b>	48,750	<b>224,175</b>	168,750

## 16. Related party transactions

### (a) Transactions

	3 <sup>rd</sup> quarter 2019	3 <sup>rd</sup> quarter 2018	Nine months 2019	Nine months 2018
<b>Joint ventures:</b>				
Revenue from sales	<b>750</b>	282	<b>1,909</b>	2,426
Other revenue	<b>4</b>	11	<b>15</b>	26
Interest income	<b>15</b>	15	<b>15</b>	45
Service expenses	<b>4</b>	8	<b>15</b>	23
<b>Associates:</b>				
Revenue from sales	<b>8,873</b>	10,541	<b>27,259</b>	30,435
Other revenue	<b>83</b>	41	<b>139</b>	169
Interest income	<b>19</b>	26	<b>90</b>	79
Purchases	<b>7,437</b>	9,386	<b>23,648</b>	28,481
Service expenses	<b>60</b>	37	<b>116</b>	131
<b>Government and semi-Government agencies:</b>				
Revenue from sales	<b>12,593</b>	15,119	<b>36,008</b>	35,149
Other income related to sales	<b>38,608</b>	46,536	<b>102,444</b>	117,452
Other revenue	<b>386</b>	277	<b>739</b>	626
Purchases	<b>844</b>	990	<b>2,363</b>	2,651
Service expenses	<b>116</b>	90	<b>304</b>	240

(b) Balances

	September 30, 2019	December 31, 2018
<b>Joint ventures:</b>		
Other assets and receivables .....	855	4
Trade receivables .....	383	176
<b>Associates:</b>		
Other assets and receivables .....	3,308	3,296
Trade receivables .....	10,544	10,388
Trade and other payables .....	4,658	4,492
<b>Government and semi-Government agencies:</b>		
Trade receivables .....	7,841	8,764
Due from the Government .....	48,548	48,864
Trade and other payables .....	2,216	2,269

(c) Compensation of key management personnel

Compensation policies for and composition of key management personnel remain consistent with 2018.

17. Investments in affiliates

(a) Investments in subsidiaries

(i) Saudi Basic Industries Corporation (“SABIC”)

On March 27, 2019, the Company announced that it had entered into a Share Purchase Agreement with the Public Investment Fund (“PIF”) to acquire the PIF’s 70% equity interest in SABIC for total consideration of SAR 259,125 (\$69,100), which is equivalent to SAR 123.39 per share. Closing of the acquisition is subject to customary closing conditions and is currently expected to occur in 2020. SABIC is headquartered in Riyadh, Saudi Arabia and operates in over 50 countries with approximately 34,000 employees. SABIC produces ethylene, ethylene glycol, methanol, methyl tertiary butyl ether (“MTBE”), polyethylene and engineering plastics and their derivatives, among other products. The Company believes that purchasing a majority interest in SABIC will advance its strategy to increase the proportion of petrochemicals production in its Downstream portfolio, capture additional value and support the Company’s Downstream growth ambitions. The acquisition will result in the Company obtaining control of SABIC. The Share Purchase Agreement provided that the purchase price for the acquisition would be paid on the closing date in the form of a cash payment equal to 50% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 50% of the purchase price. On October 6, 2019, the Company and the PIF agreed to amend the payment terms to provide that, on the closing date, 36% of the purchase price (to be adjusted for certain expenses) will be paid in the form of cash and 64% of the purchase price will be paid in the form of a seller loan. In addition, SAR 9,375 (\$2,500) in loan charges will be paid by Saudi Aramco, including a SAR 1,875 (\$500) loan charge paid in cash on the closing date. The seller loan will be secured by four separate promissory notes issued by Saudi Aramco in favor of the PIF and the balance of the loan charges will be secured by five additional promissory notes. These amounts will be payable over a period from September 30, 2020 to September 30, 2025 and will be paid from internal cash generation and other sources.

(ii) SASREF

On September 18, 2019, the Company completed the acquisition of Shell Saudi Arabia Limited’s 50% equity interest in SASREF for cash consideration of SAR 2,366. As a result of this transaction, the Company has become the sole shareholder of SASREF now renamed as Saudi Aramco Jubail Refinery Company (“SAJREF”). SAJREF owns and operates a 305,000 barrel per day refinery that includes a hydrocracker unit, a visbreaker unit and a thermal gas-oil unit. Located in the Kingdom in Jubail, the refinery began commercial operations in 1986 and currently produces naphtha, high-sulfur fuel oil, jet fuel and diesel fuel. This acquisition is in line with Saudi Aramco’s strategy of expanding its Downstream portfolio, and strengthening its capabilities across the energy value chain. Prior to the acquisition Saudi Aramco reflected its stake in SASREF as a joint operation. On increasing its ownership, Saudi Aramco re-measured its investment to fair value and recognized a gain of SAR 1,278, which is reflected in the Condensed Consolidated Statement of Income within finance and other income.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date. If the acquisition had occurred on January 1, 2019, the consolidated revenue of Saudi Aramco would have been an additional SAR 394 and net income would have been an additional SAR 47. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition occurred on first day of accounting period.

The preliminary fair values of identifiable assets and liabilities have been determined by management, assisted by an independent valuer, as part of the purchase price allocation process, which has not been concluded.

The following table summarizes the estimated goodwill and fair values of SASREF's assets and liabilities acquired on September 18, 2019:

Cash and cash equivalents	1,234
Trade accounts receivable and other current assets	3,942
Inventories	1,237
Property, plant and equipment and intangible assets	5,546
Other non-current assets	382
Trade and other payables	(6,248)
Accrued expenses and other current liabilities	(866)
Deferred tax liabilities	(532)
Employee benefit obligations	(300)
Lease liabilities	(195)
Total identifiable net assets and liabilities at fair value	4,200
Goodwill	532
Total consideration	4,732
Acquisition date fair value of previously held interest	(2,366)
Cash consideration	2,366

Acquisition and transaction costs of SAR 2 for the period ended September 30, 2019 were expensed as selling, administrative and general in the Condensed Consolidated Statement of Income.

**(b) Tas'helat Marketing Company**

On June 17, 2019, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., each acquired a 50% interest in the Tas'helat Marketing Company ("Tas'helat") for a total of SAR 770. Tas'helat operates a network of 270 retail gasoline service stations under the "Sahel" brand name and 73 convenience stores across the Kingdom. The two partners, over the next several years, will invest SAR 2,800 in upgrading the existing retail facilities and rebranding an equal number of the retail gasoline service stations with the two partners' brand names. An independent valuer has been engaged in order to determine the fair values of the assets and liabilities of Tas'helat as part of the purchase price allocation, which has not yet been concluded.

**(c) Investment in engine manufacturing**

On May 19, 2019, Saudi Aramco Development Company ("SADCO"), a wholly owned subsidiary of the Company, Korea Shipbuilding and Offshore Engineering ("KSOE"), and the Saudi Arabian Industrial Investment Company ("Dussur") concluded an agreement to establish an affiliate to form an engine manufacturing and aftersales facility in the Kingdom. SADCO will own 55% of the affiliate while KSOE and Dussur will own 30% and 15%, respectively. SADCO is a 25% shareholder of Dussur. Total investment in the affiliate will be up to SAR 646 of which SADCO's share will be up to SAR 355. Additionally, under the agreement, KSOE will have the option to sell up to 20% of the total investment in the affiliate for up to SAR 129, representing KSOE's cost, back to SADCO. The option expires on November 19, 2020. Formation of the affiliate, subject to certain regulatory approvals, is expected to conclude in late 2019 or early 2020.

**(d) Hyundai Oilbank**

On April 15, 2019, Aramco Overseas Company B.V. ("AOC"), a wholly owned subsidiary of the Company, and Hyundai Heavy Industries Holdings ("HHIH") executed a Share Purchase Agreement for AOC to purchase a 17% equity interest in Hyundai Oilbank, a subsidiary of HHIH for an estimated SAR 4,688 with an option to

acquire an additional 2.9%. The transaction, subject to receiving regulatory approvals, is expected to close in the fourth quarter of 2019. Hyundai Oilbank is a private oil refining company established in 1964. The business portfolio of Hyundai Oilbank and its subsidiaries includes oil refining, base oil, petrochemicals, and a network of gas stations.

## **18. Events after the reporting period**

### **(a) Acquisition of Flint Hills Resources Port Arthur, LLC (“Flint Hills”)**

On October 31, 2019, Saudi Aramco, through its wholly owned subsidiary, Motiva, acquired 100% of the equity interest in Flint Hills from an affiliate of Flint Hills Resources. Flint Hills owns and operates a chemical plant located in Port Arthur, Texas, comprising of a mixed feed cracker, a cyclohexane unit, a benzene unit, NGL and ethylene pipelines and storage facilities. The cash purchase price paid at closing was based on a SAR 7,125 (\$1,900) enterprise value and remains subject to post-closing validations and adjustments. An independent valuation has commenced, but not concluded, to determine the fair values of the assets and liabilities of Flint Hills as part of the purchase price allocation.

### **(b) Cash dividend**

The condensed consolidated interim financial report does not reflect a dividend to the Government of SAR 50,213, which was approved in November 2019. This dividend will be deducted from unappropriated retained earnings in the year ending December 31, 2019.

**APPENDIX B**

**Saudi Basic Industries Corporation (SABIC)  
2019G SABIC Nine Month Interim Financial Statements**

	<b>Page</b>
<b>Independent Auditor's Review Report</b> .....	<b>B-2</b>
<b>Interim Condensed Consolidated Statement of Financial Position</b> .....	<b>B-3</b>
<b>Interim Condensed Consolidated Statement of Income</b> .....	<b>B-4</b>
<b>Interim Condensed Consolidated Statement of Comprehensive Income</b> .....	<b>B-5</b>
<b>Interim Condensed Consolidated Statement of Changes in Equity</b> .....	<b>B-6</b>
<b>Interim Condensed Consolidated Statement of Cash Flows</b> .....	<b>B-7</b>
<b>Notes to the Interim Condensed Consolidated Financial Statements</b> .....	<b>B-8</b>

## Independent Auditor's Review Report



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### **Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Basic Industries Corporation (SABIC) (A Saudi Joint Stock Company)**

#### **Introduction**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (collectively with SABIC referred to as "the Group") as at 30 September 2019, and the related interim condensed consolidated statements of income and comprehensive income for the three and nine months periods ended 30 September 2019, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

#### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young

Rashid S. AlRashoud  
Certified Public Accountant  
License No. (366)



Riyadh: 28 Safar 1441H  
(27 October 2019)



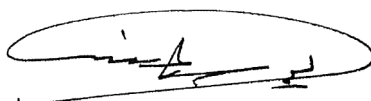
## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	As at 30 September 2019	As at 31 December 2018
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment and right-of-use assets	4, 6	171,532,760	163,819,684
Intangible assets		12,361,476	12,947,211
Investments in associates and joint ventures	5.2	22,938,292	25,780,550
Other non-current assets	5.1, 7	10,054,987	9,575,601
<b>Total non-current assets</b>		<u>216,887,515</u>	<u>212,123,046</u>
Current assets:			
Inventories		27,655,246	28,244,803
Trade receivables		19,813,024	21,821,849
Prepayments and other current assets	5.1	6,602,735	5,114,857
Short-term investments		6,460,911	9,815,499
Cash and bank balances		33,327,141	42,590,820
<b>Total current assets</b>		<u>93,859,057</u>	<u>107,587,828</u>
<b>TOTAL ASSETS</b>		<u>310,746,572</u>	<u>319,710,874</u>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the Parent		167,650,555	173,084,380
Non-controlling interests		45,590,175	48,352,095
<b>Total equity</b>		<u>213,240,730</u>	<u>221,436,475</u>
Non-current liabilities:			
Long-term debt and lease liabilities	4	43,411,030	42,345,396
Employee benefits		18,594,939	15,000,025
Other non-current liabilities	8	3,828,842	3,820,575
Total non-current liabilities		<u>65,834,811</u>	<u>61,165,996</u>
<b>Current liabilities:</b>			
Short-term borrowings, current portion of long-term debt and lease liabilities	4	5,293,713	4,917,845
Trade payables and other current liabilities		26,377,318	32,190,558
<b>Total current liabilities</b>		<u>31,671,031</u>	<u>37,108,403</u>
<b>Total liabilities</b>		<u>97,505,842</u>	<u>98,274,399</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>310,746,572</u>	<u>319,710,874</u>



EVP Corporate Finance



Vice Chairman & CEO



Authorised Board of Directors Member

The notes on page 9 to 15 form an integral part of these interim condensed consolidated financial statements.

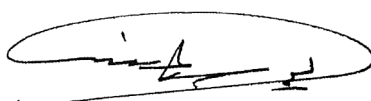
## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Notes	For the three months period ended 30 September		For the nine months period ended 30 September	
		2019	2018	2019	2018
Revenue . . . . .		<b>33,689,500</b>	43,711,932	<b>106,926,182</b>	128,858,126
Cost of sales . . . . .		<b>(24,056,390)</b>	(28,585,626)	<b>(76,001,428)</b>	(83,212,045)
<b>Gross profit</b>		<b>9,633,110</b>	15,126,306	<b>30,924,754</b>	45,646,081
General and administrative expenses . . . . .		<b>(2,619,395)</b>	(2,708,365)	<b>(7,841,195)</b>	(8,281,220)
Selling and distribution expenses . . . . .		<b>(2,357,307)</b>	(2,462,351)	<b>(7,445,236)</b>	(7,633,607)
<b>Income from operations</b>		<b>4,656,408</b>	9,955,590	<b>15,638,323</b>	29,731,254
Share of results of associates and joint ventures . . . . .	5.2	<b>(1,418,897)</b>	327,168	<b>(1,376,289)</b>	1,023,468
Finance cost, net . . . . .		<b>(454,715)</b>	(333,892)	<b>(1,106,385)</b>	(886,648)
Other expenses, net . . . . .		<b>(14,927)</b>	(66,046)	<b>(90,971)</b>	(188,640)
<b>Income before zakat and income tax</b>		<b>2,767,869</b>	9,882,820	<b>13,064,678</b>	29,679,434
Zakat expense . . . . .		<b>(675,000)</b>	(650,000)	<b>(2,025,000)</b>	(1,950,000)
Income tax expense . . . . .		<b>(255,458)</b>	(164,000)	<b>(924,118)</b>	(1,010,000)
<b>Net income for the period</b>		<b>1,837,411</b>	9,068,820	<b>10,115,560</b>	26,719,434
<b>Attributable to:</b>					
Equity holders of the Parent . . . . .		<b>834,102</b>	6,097,894	<b>6,357,693</b>	18,301,292
Non-controlling interests . . . . .		<b>1,003,309</b>	2,970,926	<b>3,757,867</b>	8,418,142
		<b>1,837,411</b>	9,068,820	<b>10,115,560</b>	26,719,434
<b>Basic and diluted earnings per share</b> <b>(Saudi Riyals):</b>					
Earnings per share from income from operations . . . . .		<b>1.55</b>	3.32	<b>5.21</b>	9.91
Earnings per share from net income attributable to equity holders of the Parent . . . . .		<b>0.28</b>	2.03	<b>2.12</b>	6.10



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Vice Chairman & CEO



Authorised Board of Directors Member

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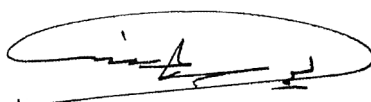
## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Saudi Riyals '000 unless otherwise stated)

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2019	2018	2019	2018
Net income for the period .....	<b>1,837,411</b>	9,068,820	<b>10,115,560</b>	26,719,434
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified to the consolidated statement of income (net of tax):</i>				
— Re-measurement (loss) gain on defined benefit plans and others .....	<b>(1,581,330)</b>	95,847	<b>(2,751,748)</b>	614,867
— Share of other comprehensive income of associates and joint ventures .....	<b>(117,883)</b>	—	<b>(167,726)</b>	—
— Net change on revaluation of investments in equity instruments at FVOCI .....	—	—	<b>(20,579)</b>	—
<i>Items that will be reclassified to the consolidated statement of income (net of tax):</i>				
— Exchange difference on translation of foreign operations and others .....	<b>(830,642)</b>	(253,735)	<b>(906,029)</b>	(995,542)
— Share of other comprehensive income of associates and joint ventures .....	<b>(476,364)</b>	(106,153)	<b>(412,449)</b>	282,296
<b>Movement of other comprehensive income</b>	<b>(3,006,219)</b>	(264,041)	<b>(4,258,531)</b>	(98,379)
<b>Total comprehensive income for the period</b>	<b>(1,168,808)</b>	8,804,779	<b>5,857,029</b>	26,621,055
<b>Attributable to:</b>				
Equity holders of the Parent .....	<b>(1,886,824)</b>	5,835,044	<b>2,530,864</b>	18,102,752
Non-controlling interests .....	<b>718,016</b>	2,969,735	<b>3,326,165</b>	8,518,303
	<b>(1,168,808)</b>	8,804,779	<b>5,857,029</b>	26,621,055



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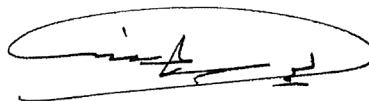
## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Attributable to the equity holders of the Parent						Non-controlling interests	Total equity
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total		
Balance as at 1 January 2018	30,000,000	15,000,000	110,889,032	(1,860,638)	10,233,854	164,262,248	46,218,398	210,480,646
Net income	—	—	—	—	18,301,292	18,301,292	8,418,142	26,719,434
Other comprehensive income	—	—	—	(198,540)	—	(198,540)	100,161	(98,379)
Total comprehensive income	—	—	—	(198,540)	18,301,292	18,102,752	8,518,303	26,621,055
Dividends and others	—	—	—	—	(13,200,000)	(13,200,000)	(5,937,496)	(19,137,496)
Balance as at 30 September 2018	30,000,000	15,000,000	110,889,032	(2,059,178)	15,335,146	169,165,000	48,799,205	217,964,205
<b>Balance as at 1 January 2019</b>	<b>30,000,000</b>	<b>15,000,000</b>	<b>110,889,032</b>	<b>(1,359,184)</b>	<b>18,554,532</b>	<b>173,084,380</b>	<b>48,352,095</b>	<b>221,436,475</b>
Net income	—	—	—	—	6,357,693	6,357,693	3,757,867	10,115,560
Other comprehensive income	—	—	—	(3,826,829)	—	(3,826,829)	(431,702)	(4,258,531)
Total comprehensive income	—	—	—	(3,826,829)	6,357,693	2,530,864	3,326,165	5,857,029
Acquisition of non-controlling interests (Note 5.1)	—	—	—	15,154	5,220,157	5,235,311	(847,811)	4,387,500
Dividends and others	—	—	—	—	(13,200,000)	(13,200,000)	(5,240,274)	(18,440,274)
Balance as at 30 September 2019	30,000,000	15,000,000	110,889,032	(5,170,859)	16,932,382	167,650,555	45,590,175	213,240,730



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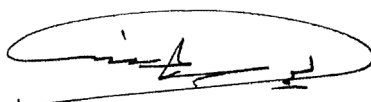
## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Saudi Riyals '000 unless otherwise stated)

	Note	For the nine months period ended 30 September 2019	For the nine months period ended 30 September 2018
<b>Operating activities:</b>			
Income before zakat and income tax		13,064,678	29,679,434
Adjustments to reconcile income before zakat and income tax to net cash inflow from operating activities:			
— Depreciation, amortisation and impairment		12,646,831	11,548,725
— Finance costs		2,008,739	1,932,354
— Share of results of associates and joint ventures		1,376,289	(1,023,468)
— Provisions and other movements, net		380,669	164,913
Changes in operating assets and liabilities:			
Decrease in other non-current assets		1,102,420	370,770
Working capital changes		(1,223,651)	(4,121,747)
Increase (decrease) in employee benefits		387,644	(1,080,131)
Increase in other non-current liabilities		69,525	119,153
Cash from operations		29,813,144	37,590,003
Finance cost paid		(1,081,739)	(1,252,183)
Zakat and income tax paid		(3,993,295)	(3,353,820)
Net cash from operating activities		24,738,110	32,984,000
<b>Investing activities:</b>			
Purchase of tangible and intangible assets, net		(13,646,522)	(9,271,185)
Short-term investments, net		3,482,641	(20,676,886)
Other assets movements		494,941	77,744
Investments in associates and joint ventures, net		841,777	(10,467,531)
Net cash used in investing activities		(8,827,163)	(40,337,858)
<b>Financing activities:</b>			
Proceeds from debt		7,471,102	15,294,270
Debt and lease repayments		(13,261,705)	(10,775,490)
Acquisition of non-controlling interests	5.1	1,125,000	—
Dividends, net		(19,908,153)	(19,377,111)
Net cash used in financing activities		(24,573,756)	(14,858,331)
Net decrease in cash and cash equivalents		(8,662,809)	(22,212,189)
Cash and cash equivalents at the beginning of the period		41,423,231	57,973,656
<b>Cash and cash equivalents at the end of the period</b>		<b>32,760,422</b>	<b>35,761,467</b>
Cash and bank balances		33,327,141	36,837,173
Less: bank overdrafts		(566,719)	(1,075,706)
<b>Cash and cash equivalents</b>		<b>32,760,422</b>	<b>35,761,467</b>
Supplementary non-cash information			
— Right-of-use assets		7,843,507	—
— Lease liabilities		7,377,529	—



EVP Corporate Finance



Vice Chairman & CEO



Authorised Board of Directors Member

The notes on page 9 to 15 form an integral part of these interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2019**

**1. Corporate information**

Saudi Basic Industries Corporation (“SABIC” or “the Parent”) is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia (“KSA”) through the Public Investment Fund (“PIF”) and 30% by the private sector. The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

On 27 March 2019, PIF and Saudi Arabian Oil Company (“Saudi Aramco”) have signed a share purchase agreement pursuant to which Saudi Aramco has agreed to acquire all of PIF’s stake in SABIC. Completion of the transaction is subject to customary closing conditions, including regulatory approvals. Upon completion of the transaction, Saudi Aramco will own 70% of SABIC’s issued share capital.

SABIC and its subsidiaries (collectively the “Group”) are engaged in the manufacturing, marketing and distribution of chemicals, polymers, plastics, agri-nutrients and metal products in global markets.

The interim condensed consolidated financial statements of the Group for the three and nine months period ended 30 September 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 24 October 2019.

**2. Basis of preparation**

These interim condensed consolidated financial statements for the three and nine months period ended 30 September 2019 have been prepared in accordance with International Accounting Standard 34 ‘*Interim Financial Reporting*’ (“IAS 34”) as endorsed in the KSA and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should therefore be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

An interim period is considered as integral part of the whole fiscal year, however, the results of operations for the interim periods may not be a fair indication of the results of the full year operations.

Certain prior periods’ figures have been reclassified to conform to the current period’s presentation.

**3. Summary of significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparing the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of International Financial Reporting Standard 16 ‘*Leases*’ (“IFRS 16”) at its effective date 1 January 2019.

IFRS 16 replaces IAS 17 ‘*Leases*’ (“IAS 17”), IFRIC 4 ‘*Whether an arrangement contains a lease*’ (“IFRIC 4”), SIC-15 ‘*Operating leases—Incentives*’ and SIC-27 ‘*Evaluating the substance of transactions involving the legal form of a lease*’. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective.

#### 4. Changes in accounting policies

##### IFRS 16 – Leases

The Group has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified simplified transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

The Group has not used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 (and IFRIC 4). In adopting IFRS 16, the Group has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with a remaining lease term of less than 12 months at 1 January 2019;
- exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

As at 1 January 2019, the Group has recognised additional lease liabilities amounting to SR 6.83 billion and associated right-of-use assets amounting to SR 7.29 billion in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liabilities, adjusted by the amount of prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group's weighted average incremental borrowing rate applied to the lease liabilities was 4.04%.

The following table shows the reconciliation of operating lease commitments under IAS 17 to the lease liabilities under IFRS 16 on 1 January 2019:

	<b>1 January 2019</b>
Operating lease commitments disclosed as at 31 December 2018 . . . . .	8,905,562
Discounted using the Group's incremental borrowing rate . . . . .	(1,980,916)
Less: short-term leases recognised on a straight-line basis as expense . . . . .	(190,859)
Less: low-value leases recognised on a straight-line basis as expense . . . . .	(19,493)
Add: contracts reassessed as lease agreements . . . . .	118,287
	<u>6,832,581</u>
Add: finance lease liabilities recognised as at 31 December 2018 . . . . .	738,925
Lease liabilities recognised as at 1 January 2019 . . . . .	<u>7,571,506</u>

Leases are recognised as right-of-use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is recognised in the interim condensed consolidated statement of income over the lease term. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are initially measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs; if applicable.

Lease liabilities include, if applicable, the net present value of fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase

option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

#### *Short-term and low value assets' leases*

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Group as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the interim condensed consolidated statement of income.

#### *Variable lease payments*

Some leases contain variable payments that are linked to the usage or performance of the leased asset. Such payments are recognised in the interim condensed consolidated statement of income.

#### *Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

## **5. Significant matters during the period**

### **5.1. Increase of shareholding in a subsidiary**

SABIC and Japan Saudi Arabia Methanol Company, Inc. ("JSMC"), the partner in Saudi Methanol Company ("Ar-Razi"), a 50% owned subsidiary of SABIC, entered into an agreement, whereby SABIC agreed to acquire an additional 25% of shares in Ar-Razi from JSMC, and renew the Joint Venture Agreement ("JVA") for 20 years. At the end of June 2019, all required regulatory approvals were obtained to complete this transaction.

In relation to the above, SABIC and JSMC agreed that SABIC will receive a net consideration of SR 4.50 billion from JSMC in three installments. The first installment amounting to SR 1.13 billion (USD 0.30 billion) was received on 25 June 2019, after offsetting a consideration of SR 0.56 billion (USD 0.15 billion) for the acquisition of additional 25% shares of Ar-Razi. The remaining two installments of SR 1.69 billion (USD 0.45 billion) each, will be due on 31 March 2020 and 2021, respectively. The current installment of receivable has been recorded as part of prepayments and other current assets and the final discounted installment amounting to SR 1.58 billion has been recorded as part of other non-current assets. The final installment has been discounted at 4% per annum.

Considering this transaction is related to the acquisition of an additional ownership interest in a subsidiary without a change of control, accordingly, it is accounted for as an equity transaction and excess consideration over the carrying amount of the non-controlling interests is recognised in equity attributable to the Parent. The Group has elected to recognise this effect in retained earnings. With respect to the subsidiary to which these non-controlling interests relate, there were accumulated components recognised in OCI amounting to SR 15 million which has been reallocated within equity of the Parent.



The accounting impact of the transaction can be summarised as follows:

Consideration from JSMC	5,062,500
Less: acquisition of 25% shares in Ar-Razi	(562,500)
Net consideration	4,500,000
Discounting of third installment	(112,500)
Net consideration after discounting at 4% per annum	4,387,500
Add: carrying value of the additional shares in Ar-Razi	847,811
Less: transfer of other comprehensive income	(15,154)
Excess recognised in retained earnings	<u>5,220,157</u>

## 5.2. Investment in Clariant AG

During the third quarter 2019, SABIC reassessed the carrying value of its investment in Clariant AG (an associate) comparing to the higher of fair value less cost of disposal and value in use approach. The assessment is based on publicly available information and average analyst consensus regarding the development of the 12-month forecast of the Clariant share price, including a reasonable premium given the fact that SABIC has significant influence on this investment through its 24.99% share. As a result, SABIC has recorded an impairment provision of SR 1.51 billion as at 30 September 2019 as part of ‘share of results of associates and joint ventures’ in the interim condensed consolidated statement of income. The trading price of a Clariant share as at 30 September 2019 was CHF 19.43.

## 6. Property, plant and equipment and right-of-use assets

	As at 30 September 2019	As at 31 December 2018
Property, plant and equipment	<u>164,363,131</u>	163,819,684
Right-of-use assets	<u>7,169,629</u>	—
	<u>171,532,760</u>	<u>163,819,684</u>

## 7. Other non-current assets

	As at 30 September 2019	As at 31 December 2018
Investments in debt instruments	<u>1,849,865</u>	2,493,880
Receivables from JSMC (Note 5.1)	<u>1,590,525</u>	—
Investments in equity instruments and funds	<u>1,106,194</u>	1,090,109
Deferred tax assets	<u>893,258</u>	865,156
Others	<u>4,615,145</u>	5,126,456
	<u>10,054,987</u>	<u>9,575,601</u>

Refer to note 5.1 for further information on the receivables from Japan Saudi Arabia Methanol Company, Inc. (“JSMC”), the partner in Saudi Methanol Company (“Ar-Razi”), a subsidiary of SABIC.

## 8. Other non-current liabilities

	As at 30 September 2019	As at 31 December 2018
Deferred tax liabilities	<u>1,602,880</u>	1,664,138
Others	<u>2,225,962</u>	2,156,437
	<u>3,828,842</u>	<u>3,820,575</u>

## 9. Fair value measurement

As at 30 September 2019, the Group has no derivative financial assets (as at 31 December 2018: SR 29.7 million). These financial assets are valued at fair value and classified as level 2 measurement.

The fair value of equity instruments at FVOCI is determined using a significant non-observable input and is classified as a level 3 measurement.

Description of valuation techniques used and key inputs to valuation investments in equity instruments is as follows:

<u>Valuation technique</u>	<u>Significant non-observable input</u>	<u>Range</u>
Market approach . . . . .	Equity value to EBITDA multiple	7.9 to 13.1
	Midpoint of Net Asset Value and Price to Book multiple	0.76
Net Asset Value approach . . . . .	Point estimate of distributable cash and cash equivalents and net assets	SR 46.1 to SR 49.9
Expected Returns approach . . . . .	Equity value to Revenue multiple	0.73

At 30 September 2019, the fair values of Group's other financial assets and financial liabilities approximate the carrying value.

## 10. Related party transactions and balances

The significant related party transactions and balances are broken down as follows:

	<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Amounts owed by related parties</u>	<u>Amounts owed to related parties</u>	<u>Loans to related parties</u>	<u>Loans from related parties</u>
	<u>For the nine months period ended 30 September 2019</u>		<u>As at 30 September 2019</u>		<u>As at 30 September 2019</u>	
Associates . . . . .	<u>43,218</u>	<u>5,664,029</u>	<u>36,455</u>	<u>451,153</u>	<u>35,135</u>	<u>—</u>
Joint ventures and partners . . . . .	<u>9,400,480</u>	<u>497,860</u>	<u>2,602,050</u>	<u>18,286</u>	<u>735,810</u>	<u>1,871,791</u>
	<u>For the nine months period ended 30 September 2018</u>		<u>As at 31 December 2018</u>		<u>As at 31 December 2018</u>	
Associates . . . . .	9,655	6,291,717	25,818	368,434	35,135	—
Joint ventures and partners . . . . .	12,502,959	532,076	3,256,958	45,798	769,654	2,309,743

## 11. Segment information

For management purposes, the Group is organised into three Strategic Business Units ("SBUs") and Hadeed, a wholly owned manufacturing business, which based on its products are grouped in three reporting segments.

Based on a management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment, in prior years, has been allocated over the Petrochemicals & Specialties and Agri-nutrients SBUs and Hadeed according to an internally agreed consistent basis. Accordingly, segment information for prior period are restated in line with current period presentation.

All intercompany transactions within the reporting segments have been appropriately eliminated. The segments' financial details are shown below:

	<u>For the three months period ended 30 September 2019</u>			
	<u>Petro-chemicals &amp; Specialties</u>	<u>Agri-nutrients</u>	<u>Hadeed</u>	<u>Consolidated</u>
Revenue . . . . .	<u>29,705,051</u>	<u>1,679,270</u>	<u>2,305,179</u>	<u>33,689,500</u>
Depreciation, amortisation and impairment . . . . .	<u>(3,924,494)</u>	<u>(200,504)</u>	<u>(281,738)</u>	<u>(4,406,736)</u>
Income (loss) from operations . . . . .	<u>4,458,960</u>	<u>420,747</u>	<u>(223,299)</u>	<u>4,656,408</u>
Share of results of associates and joint ventures . . . . .	<u>(1,373,966)</u>	<u>(44,931)</u>	<u>—</u>	<u>(1,418,897)</u>
Finance cost, net . . . . .				<u>(454,715)</u>
Other expenses, net . . . . .				<u>(14,927)</u>
Income before zakat and income tax . . . . .				<u>2,767,869</u>

**For the three months period ended 30 September 2018**

	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue	39,050,579	2,135,480	2,525,873	43,711,932
Depreciation, amortisation and impairment	(3,765,806)	(182,860)	(265,607)	(4,214,273)
Income from operations	9,091,946	751,941	111,703	9,955,590
Share of results of associates and joint ventures	283,364	43,804	—	327,168
Finance cost, net				(333,892)
Other expenses, net				(66,046)
Income before zakat and income tax				<u>9,882,820</u>

**For the nine months period ended 30 September 2019**

	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue	<b>93,513,071</b>	<b>5,291,407</b>	<b>8,121,704</b>	<b>106,926,182</b>
Depreciation, amortisation and impairment	<b>(11,212,060)</b>	<b>(592,719)</b>	<b>(842,052)</b>	<b>(12,646,831)</b>
Income (loss) from operations	<b>14,548,025</b>	<b>1,444,026</b>	<b>(353,728)</b>	<b>15,638,323</b>
Share of results of associates and joint ventures	<b>(1,349,287)</b>	<b>(27,002)</b>	—	<b>(1,376,289)</b>
Finance cost, net				<b>(1,106,385)</b>
Other expenses, net				<b>(90,971)</b>
Income before zakat and income tax				<u><b>13,064,678</b></u>

**For the nine months period ended 30 September 2018**

	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Revenue	114,226,534	5,979,049	8,652,543	128,858,126
Depreciation, amortisation and impairment	(10,208,973)	(542,228)	(797,524)	(11,548,725)
Income from operations	27,673,821	1,605,047	452,386	29,731,254
Share of results of associates and joint ventures	835,417	188,051	—	1,023,468
Finance cost, net				(886,648)
Other expenses, net				(188,640)
Income before zakat and income tax				<u>29,679,434</u>

**As at 30 September 2019**

	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Total assets	<b>281,301,931</b>	<b>11,609,302</b>	<b>17,835,339</b>	<b>310,746,572</b>
Total liabilities	<b>90,155,335</b>	<b>2,421,611</b>	<b>4,928,896</b>	<b>97,505,842</b>

**As at 31 December 2018**

	<b>Petro-chemicals &amp; Specialties</b>	<b>Agri-nutrients</b>	<b>Hadeed</b>	<b>Consolidated</b>
Total assets	290,154,965	10,975,287	18,580,622	319,710,874
Total liabilities	91,477,793	3,009,863	3,786,743	98,274,399

## Geographical distribution of revenue

	For the three months period ended 30 September 2019		For the three months period ended 30 September 2018	
KSA .....	5,687,661	17%	6,068,638	14%
China .....	6,262,629	19%	8,304,028	19%
Rest of Asia .....	7,420,043	22%	10,966,312	25%
Europe .....	7,712,943	23%	10,199,043	23%
Americas .....	3,008,475	9%	3,710,238	8%
Others .....	3,597,749	10%	4,463,673	11%
	<b>33,689,500</b>	<b>100%</b>	<b>43,711,932</b>	<b>100%</b>

	For the nine months period ended 30 September 2019		For the nine months period ended 30 September 2018	
KSA .....	18,922,452	18%	19,720,053	15%
China .....	18,597,496	17%	26,183,436	20%
Rest of Asia .....	23,737,768	22%	28,232,695	22%
Europe .....	24,985,358	23%	30,777,082	24%
Americas .....	9,466,404	9%	11,402,031	9%
Others .....	11,216,704	11%	12,542,829	10%
	<b>106,926,182</b>	<b>100%</b>	<b>128,858,126</b>	<b>100%</b>

The revenue information above is based on the locations of the customers.

## Geographical distribution of property, plant and equipment

	As at 30 September 2019		As at 31 December 2018	
KSA .....	136,666,367	83%	138,563,584	85%
Europe .....	13,577,818	8%	13,949,262	8%
Americas .....	12,657,088	8%	9,758,799	6%
Asia .....	1,459,211	1%	1,545,193	1%
Others .....	2,647	—	2,846	—
	<b>164,363,131</b>	<b>100%</b>	<b>163,819,684</b>	<b>100%</b>

## 12. Appropriations

The Annual General Assembly (“AGA”), in its meeting held on 4 Shabaan 1440H (corresponding to 9 April 2019), approved cash dividends of SR 13.2 billion (SR 4.4 per share), which includes the interim cash dividends amounting to SR 6.6 billion (SR 2.2 per share) for the first half of 2018, which has been recognised in equity in the consolidated financial statements for the year ended 31 December 2018. The remaining of the dividend declared of SR 6.6 billion has been recognised in the interim condensed consolidated financial statements for the period ended 30 June 2019, which was made available for distribution in April 2019.

The AGA also approved Board of Directors’ remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 18 Ramadan 1440H (corresponding to 23 May 2019), SABIC declared interim cash dividends for the first half of the year 2019 amounting to SR 6.6 billion (SR 2.2 per share), which has been recognised in the interim condensed consolidated financial statements for the period ended 30 June 2019, which was made available for distribution in September 2019.

## 13. Subsequent events

In the opinion of management, there have been no significant subsequent events since the period ended 30 September 2019, which would have a material impact on the financial position of the Group as presented in these interim condensed consolidated financial statements.

**APPENDIX C**  
**Certification Letter of D&M**

DEGOLYER AND MACNAUGHTON  
5001 SPRING VALLEY ROAD  
SUITE 800 EAST  
DALLAS, TEXAS 75244

August 29, 2019

Saudi Arabian Oil Company  
P.O. Box 11158  
Dhahran 31311  
Kingdom of Saudi Arabia

Re: Proved Oil, Condensate, Liquefied Petroleum Gas, and Marketable Gas Reserves Under the 60-Year License Term

Gentlemen:

Pursuant to your request, this report of third party presents an independent evaluation, as of December 31, 2018, of the extent of the proved oil, condensate, liquefied petroleum gas (LPG), and marketable gas reserves of certain properties onshore and offshore the Kingdom of Saudi Arabia in which Saudi Arabian Oil Company has represented it holds a 100-percent interest. This evaluation was completed on August 29, 2019. The properties evaluated include certain fields and reservoirs referred to and listed herein but do not include all fields and reservoirs held by Saudi Arabian Oil Company. Saudi Arabian Oil Company has represented that these properties account for approximately 85 percent of Saudi Arabian Oil Company's net proved oil reserves as of December 31, 2018. The proved reserves estimates prepared by us have been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 and revised in June 2018 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists & Engineers. These reserves definitions are discussed in detail under the Definition of Reserves heading of this report.

Reserves estimated herein are expressed as gross reserves and net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2018. Net reserves are defined as that from these properties after December 31, 2018. Net reserves are defined as that portion of the gross reserves attributable to the interests held by Saudi Arabian Oil Company after deducting interests held by others. Saudi Arabian Oil Company has represented that it holds 100 percent of the interests evaluated herein; therefore, net reserves are equivalent to gross reserves for the purposes of this report.

Saudi Arabian Oil Company has represented that it holds interests in certain properties onshore and offshore the Kingdom of Saudi Arabia. Proved reserves have been estimated for 104 reservoirs in 32 fields in this report.

Field	Reservoir	Field	Reservoir	Field	Reservoir	
Abqaiq	Arab-C	Ghawar Hawiyah	Arab-D	Manifa	Arab-A	
	Arab-D		Jauf		Post Arab-B	
	Hanifa		Khuff-B		Arab-B	
Abu Hadriya	Hadriya	Ghawar Shedgum	Khuff-C		Arab-C/D	
Abu Jifan	Arab-D		Post Arab-D		Hith Stringers	
Abu Sa'fah	Arab-C		Arab-D		Manifa	
Berri	Arab-D	Ghawar Uthmaniyah	Jauf	Mazalij	Lower Ratawi	
	Lower Ratawi		Khuff-B		Upper Ratawi	
	Upper Ratawi		Khuff-C		Arab-D	
	Arab-A		Arab-D		Unayzah-A	
	Post Arab-B		Khuff-B		Wadi Waqab	
	Arab-B		Khuff-C		Unayzah-A	
	Arab-C		Ghazal		Unayzah-B	
	Arab-D		Harmaliyah		Unayzah-A	
	Hadriya		Juraybi'at		Arab-A	
	Hanifa				Post Arab-B	
Dammam	Upper Fadhili		Arab-B	Qatif	Arab-A	
	Arab-A/B		Post Arab-C		Arab-B	
	Arab-C		Arab-C		Arab-C	
	Arab-D		Post Arab-D		Arab-D	
Fadhili	Arab-D	Karan	Arab-D	Qirdi	Arab-D	
	Fadhili		Khuff-A		Lower Fadhili	
Farhah	Arab-D	Khurais	Khuff-B/C	Safaniya	Ahmadi	
Ghawar Ain Dar	Post Arab-D		Arab-D		Khafji	
	Arab-D		Hanifa		Mauddud	
Ghawar Fazran	Lower Fadhili	Khursaniyah	Lower Fadhili		Ratawi	
	Khuff-B		Arab-A		Safaniya	
	Arab-D		Arab-B		Wara	
	Lower Fadhili		Arab-C		Zubair	
Ghawar Haradh	Khuff-B		Arab-D	Shaybah	Shu'aiba	
	Arab-D		Hanifa		Tinat	Unayzah
	Khuff-A		Khuff-B		Zuluf	Khafji
	Khuff-B		Khuff-C			Mauddud
	Khuff-C					Ratawi
	Unayzah				Safaniya	
					Shu'aiba	
					Zubair	

No other reservoirs in these fields and no other fields and reservoirs held by Saudi Arabian Oil Company were evaluated in this report.

The interests evaluated in this report are held through contractual instruments and decrees as represented by Saudi Arabian Oil Company, including Article 3 of the "Concession Agreement by and between The Government of the Kingdom of Saudi Arabia and The Saudi Arabian Oil Company." Article 3 grants rights of exploration and production of petroleum for an initial term of 40 years from January 1, 2018, and allows an extension of 20 years that is administrative in nature. The license grant also allows for another 40-year extension (which would result in a total term of 100 years) that is subject to negotiation near the time of initial expiration of the extended term. As such, for the purposes of this report, a 60-year total license term from January 1, 2018, which is the initial 40-year term plus the first 20-year extension, was presumed for proved reserves. During the course of this evaluation, we had the opportunity to review certain documents related to the license arrangements; however, we, as engineers, cannot express an opinion as to the accounting or legal aspects of those agreements. If any components of this license grant were to change, such changes could materially impact the results herein.

Estimates of reserves should be regarded only as estimates that may change as further production history and additional information become available. Not only are such estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Information used in this independent evaluation was obtained from Saudi Arabian Oil Company files and from reviews with Saudi Arabian Oil Company personnel. In the preparation of this report we have relied, without independent verification, upon such information furnished by Saudi Arabian Oil Company with respect to the property interests being evaluated, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of certain properties was completed for the purposes of this report.

This report was prepared in August 2019; therefore, certain events that may have occurred before the preparation of this report but after the “as-of” date of December 31, 2018, which might have affected the estimates presented herein, were not taken into account.

### **Definition of Reserves**

Estimates of proved reserves presented in this report have been prepared in accordance with the PRMS approved in March 2007 and revised in June 2018 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists & Engineers. Only proved reserves have been evaluated for this report. The petroleum reserves are defined as follows:

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria: discovered, recoverable, commercial, and remaining (as of the evaluation’s effective date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

*Proved Reserves* are those quantities of petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term “reasonable certainty” is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the estimate.

*Probable Reserves* are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

*Possible Reserves* are those additional reserves that analysis of geoscience and engineering data indicates are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high-estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Once projects satisfy commercial maturity, the associated quantities are classified as Reserves. These quantities may be allocated to the following subdivisions based on the funding and operational status of wells and associated facilities within the reservoir development plan:

*Developed Reserves* are quantities expected to be recovered from existing wells and facilities. Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

*Developed Producing Reserves* are expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.

*Developed Non-Producing Reserves* include shut-in and behind-pipe reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

*Undeveloped Reserves* are quantities expected to be recovered through future significant investments. Undeveloped Reserves are to be produced (1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g., when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

The extent to which probable and possible reserves ultimately may be recategorized as proved reserves is dependent upon future drilling, testing, and well performance. The degree of risk to be applied in evaluating probable and possible reserves is influenced by economic and technological factors as well as the time element. No probable or possible reserves have been evaluated for this report.

### **Methodology and Procedures**

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with practices generally recognized by the petroleum industry and in accordance with definitions established by the PRMS. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

Based on the current stage of field development, production performance, the development plans provided by Saudi Arabian Oil Company, and analyses of areas offsetting existing wells with test or production data, reserves were categorized as proved.

Saudi Arabian Oil Company has represented that its senior management is committed to the development plans provided by Saudi Arabian Oil Company and that Saudi Arabian Oil Company has the financial capability to execute the development plans, including the drilling and completion of wells and the installation of equipment and facilities.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure maps were prepared to delineate each reservoir, and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material-balance and other engineering methods were used to estimate OOIP and/or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP and/or OGIP. These recovery factors were based on the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material balance and other engineering methods were used to estimate recovery factors based on an analysis of reservoir performance, including production rate, reservoir pressure, and reservoir fluid properties.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other



performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production as defined under the Definition of Reserves heading of this report.

In certain cases, reserves were estimated by incorporating elements of analogy with similar wells or reservoirs for which more complete data were available.

Future oil and gas producing rates estimated for this report were based on information provided by Saudi Arabian Oil Company. Saudi Arabian Oil Company has represented that the rates used for the production forecasts herein are within the capacity of the wells or reservoirs to produce.

Data provided by Saudi Arabian Oil Company from wells drilled through December 31, 2018, and made available for this evaluation were used to prepare the reserves estimates herein. These reserves estimates were based on consideration of monthly production data available through December 31, 2018. Cumulative production, as of December 31, 2018, was deducted from the estimated gross ultimate recovery to estimate gross reserves.

Oil and condensate reserves estimated herein are those to be recovered by normal field separation. LPG reserves include all liquids that result from plant processing, inclusive of ethane, butane, propane, and some heavier liquids. The estimates herein of oil, condensate, and LPG reserves are reported in millions of barrels (10<sup>6</sup>bbl), where 1 barrel equals 42 United States gallons. For reporting purposes, condensate and LPG reserves have been estimated separately and are presented herein as a summed quantity.

Gas quantities estimated herein are expressed as marketable gas. Separator gas is defined as the gas produced from the wells after field separation but prior to gas processing and shrinkage from field handling or fuel use. Sales gas is defined as the separator gas after reduction for gas injection and shrinkage from field handling, fuel usage, gas processing, and line losses measured at the point of delivery. Marketable gas is defined as sales gas plus fuel. Gas reserves are reported as marketable gas in this report. The fuel gas quantities included in this report as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company equal 9,974 billion cubic feet (10<sup>9</sup>ft<sup>3</sup>). Gas reserves estimated herein are expressed at a temperature base of 60 degrees Fahrenheit (°F) and a pressure base of 14.7 pounds per square inch absolute (psia) and are reported in 10<sup>9</sup>ft<sup>3</sup>.

Gas quantities estimated herein are identified by the type of reservoir from which the gas will be produced. Nonassociated gas is gas at initial reservoir conditions with no oil present in the reservoir. Associated gas is both gas-cap gas and solution gas. Gas-cap gas is gas at initial reservoir conditions and is in communication with an underlying oil zone. Solution gas is gas dissolved in oil at initial reservoir conditions. Gas quantities estimated herein include both associated and nonassociated gas.

For the purposes of this report, marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

The estimates reported herein are limited to the expiration of the licenses for developing and producing the properties evaluated. As described herein and for the purposes of this report, the expiration for all licenses is December 31, 2077, which reflects 60 years from the license commencement.

**Primary Economic Assumptions**

This report has been prepared using forecast prices, expenses, and costs provided by Saudi Arabian Oil Company in United States dollars (U.S.\$). The following economic assumptions were used for estimating the reserves reported herein:

*Oil, Condensate, LPG, and Sales Gas Prices*

Saudi Arabian Oil Company provided all historical pricing information, and it has represented that the provided oil, condensate, and LPG (propane and butane) prices were based on the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period ending December 31, 2018. The crude oil prices for the differing grades of crude based on this average, expressed in United States dollars per barrel (U.S.\$/bbl), were as follows:

<u>Crude Type</u>	<u>Price (U.S.\$/bbl)</u>
Arab Heavy .....	66.82
Arab Medium .....	68.19
Arab Light .....	69.72
Arab Extra Light .....	71.31
Arab Super Light .....	75.91

The average condensate price was U.S.\$73.63 per barrel. LPG prices were provided separately for propane and butane and were U.S.\$46.73 per barrel and U.S.\$46.48 per barrel, respectively. Ethane is also considered LPG in this report, but pricing was based on the gas price discussed below. For reference, the unweighted arithmetic average of the first-day-of-the-month Brent crude price U.S.\$71.54 per barrel for 2018. These average prices were utilized for the valuation herein, with all prices held constant for the life of the evaluation.

The gas sales prices used for this report were based on the existing gas sales and purchase agreement between the Kingdom of Saudi Arabia and the Saudi Arabian Oil Company, which specifies prices for sales gas based on gas type (associated or nonassociated), location of the source field, and the year of production. The gas sales prices, expressed in United States dollars per million Btu (U.S.\$/10<sup>6</sup>Btu), were as follows:

<u>Year</u>	<u>Gas Prices (U.S.\$/10<sup>6</sup>Btu)</u>			
	<u>Associated Gas</u>	<u>Northern Area Nonassociated Gas</u>	<u>Southern Area Nonassociated Gas</u>	<u>Fadhili Increment Nonassociated Gas</u>
2019 .....	1.25	1.25	1.25	1.25
2020 .....	0.31	3.84	1.52	3.81

The sales gas prices were held constant for the lives of the fields after 2020. The average gas sales price in this report was U.S.\$1.60 per 10<sup>6</sup>Btu.

Ethane is referenced as part of the LPG reserves estimated in this report, but the pricing was based on the same location and source criteria as gas prices. Ethane prices used in this report are shown below, expressed in United States dollars per barrel (U.S.\$/bbl):

<u>Year</u>	<u>Ethane Prices (U.S.\$/bbl)</u>			
	<u>Associated Gas</u>	<u>Northern Area Nonassociated Gas</u>	<u>Southern Area Nonassociated Gas</u>	<u>Fadhili Increment Nonassociated Gas</u>
2019 .....	6.47	6.47	6.47	6.47
2020 .....	3.58	14.45	7.30	14.36

The ethane prices were held constant for the lives of the fields after 2020.

*Operating Expenses, Capital Costs, and Abandonment Costs*

Operating expenses, capital costs, and abandonment costs, based on information provided by Saudi Arabian Oil Company, were used in estimating future costs required to operate the properties. In certain cases, future expenditures, either higher or lower than current expenditures, may have been used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. Abandonment costs, which are those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment, were provided by Saudi Arabian Oil Company and were not adjusted for inflation.

*Royalty and Other Payments*

Production from the fields evaluated herein are subject to royalty due to the Kingdom of Saudi Arabia. The royalty is assessed, before income taxes, on oil and condensate based on a tiered system of marginal rates (increasing royalty percentages applied to the increment above the previous tier) relative to oil price, expressed in United States dollars per barrel (U.S.\$/bbl), as follows:

<u>Oil Price</u>	<u>Royalty (%)</u>
Less Than or Equal to U.S.\$70.00/bbl .....	20
Greater Than U.S.\$70.00/bbl but Less Than U.S.\$100.00/bbl .....	40
Greater Than or Equal to U.S.\$100.00/bbl .....	50

Note: Royalty over 20 percent is applied to the incremental revenue generated above the previous tier price. Condensate is not subject to royalty through 2022.

Sales gas and ethane are not subject to royalty; however, propane, butane, and other LPG are subject to a fixed royalty of 12.5 percent applied to U.S.\$0.035 per 10<sup>6</sup>Btu. For the Abu Sa'fah field, there is an agreement to pay another party 50 percent of the future net revenue before taxes.

*Income Tax*

Future net revenue from the fields is subject to an income tax imposed by the Kingdom of Saudi Arabia. The statutory rate for oil and associated gas revenue is 50 percent, and the statutory rate is 20 percent for nonassociated gas and plant liquid (from processed associated and nonassociated gas) revenue. Expenses are fully deductible, but capital expenditures are depreciated using a 20-percent annual rate. Tax losses can be carried forward subject to an application limit of 25 percent of annual profit in a given year.

**Summary of Conclusions**

Saudi Arabian Oil Company has represented that it holds interests in certain properties onshore and offshore the Kingdom of Saudi Arabia evaluated herein. Saudi Arabian Oil Company has represented that its estimates of the proved reserves, as of December 31, 2018, attributable to Saudi Arabian Oil Company's interests in the properties evaluated in this report are summarized as follows, expressed in millions of barrels (10<sup>6</sup>bbl), billions of cubic feet (10<sup>9</sup>ft<sup>3</sup>), and millions of barrels of oil equivalent (10<sup>6</sup>boe):

	<b>Estimated by Saudi Arabian Oil Company Proved Reserves Summary</b>			
	<u>Oil (10<sup>6</sup>bbl)</u>	<u>Condensate and LPG (10<sup>6</sup>bbl)</u>	<u>Marketable Gas (10<sup>9</sup>ft<sup>3</sup>)</u>	<u>Oil Equivalent (10<sup>6</sup>boe)</u>
Total Proved				
Gross .....	169,534	22,558	113,307	210,977
Net .....	169,534	22,558	113,307	210,977

Note: Marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

Saudi Arabian Oil Company has represented that its estimates of proved reserves have been estimated in accordance with the reserves definitions of the PRMS. Based on a procedural review conducted by DeGolyer and MacNaughton, Saudi Arabian Oil Company has conducted its internal estimates of reserves in accordance with

the PRMS and by the use of recognized geologic and engineering methods that are generally accepted by the petroleum industry.

DeGolyer and MacNaughton’s independent estimate of the proved reserves, as of December 31, 2018, attributable to Saudi Arabian Oil Company’s interests in the properties evaluated in this report are summarized as follows, expressed in millions of barrels (10<sup>6</sup>bbl), billions of cubic feet (10<sup>9</sup>ft<sup>3</sup>), and millions of barrels of oil equivalent (10<sup>6</sup>boe):

	<b>Estimated by DeGolyer and MacNaughton Proved Reserves Summary</b>			
	<b>Oil (10<sup>6</sup>bbl)</b>	<b>Condensate and LPG (10<sup>6</sup>bbl)</b>	<b>Marketable Gas (10<sup>9</sup>ft<sup>3</sup>)</b>	<b>Oil Equivalent (10<sup>6</sup>boe)</b>
Total Proved				
Gross .....	162,112	28,808	108,901	209,070
Net .....	162,112	28,808	108,901	209,070

Notes:

1. Marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.
2. The fuel gas quantities included in this report as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company equal 9,984 10<sup>9</sup>ft<sup>3</sup>.
3. The condensate and LPG reserves in this table include 24,352 10<sup>6</sup>bbl of LPG.

In comparing the detailed proved reserves estimates prepared by DeGolyer and MacNaughton and those prepared by Saudi Arabian Oil Company for the properties evaluated, differences have been found, both positive and negative, in reserves estimates for individual properties that result in an aggregate difference of approximately 0.9 percent. It is DeGolyer and MacNaughton’s opinion that the proved reserves estimates prepared by Saudi Arabian Oil Company on the properties evaluated by DeGolyer and MacNaughton and referred to above, when compared on the basis of net millions of barrels of oil equivalent, in aggregate, do not differ materially from those prepared by DeGolyer and MacNaughton.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant’s ability to recover its reserves, this report and the estimated reserves were prepared based on the prevailing regulatory structure in the Kingdom of Saudi Arabia as of December 31, 2018.

DEGOLYER AND MACNAUGHTON

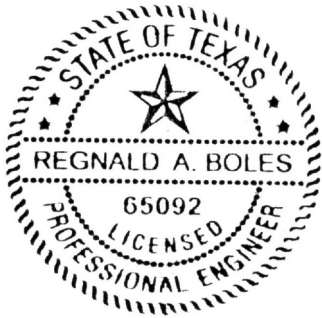
DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. Our fees were not contingent on the results of our evaluation. This report has been prepared at the request of Saudi Arabian Oil Company. DeGolyer and MacNaughton has used all assumptions, data, procedures, and methods that it considers necessary and appropriate to prepare this report.

Submitted,

*DeGolyer and MacNaughton*

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DeGOLYER and MacNAUGHTON  
Texas Registered Engineering Firm F-716



*Regnald A. Boles*

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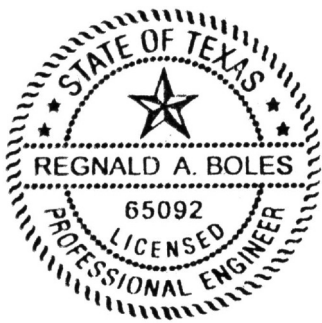
Regnald A. Boles, P.E.  
Senior Vice President  
DeGolyer and MacNaughton

**CERTIFICATE of QUALIFICATION**

I, Regnald A. Boles, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

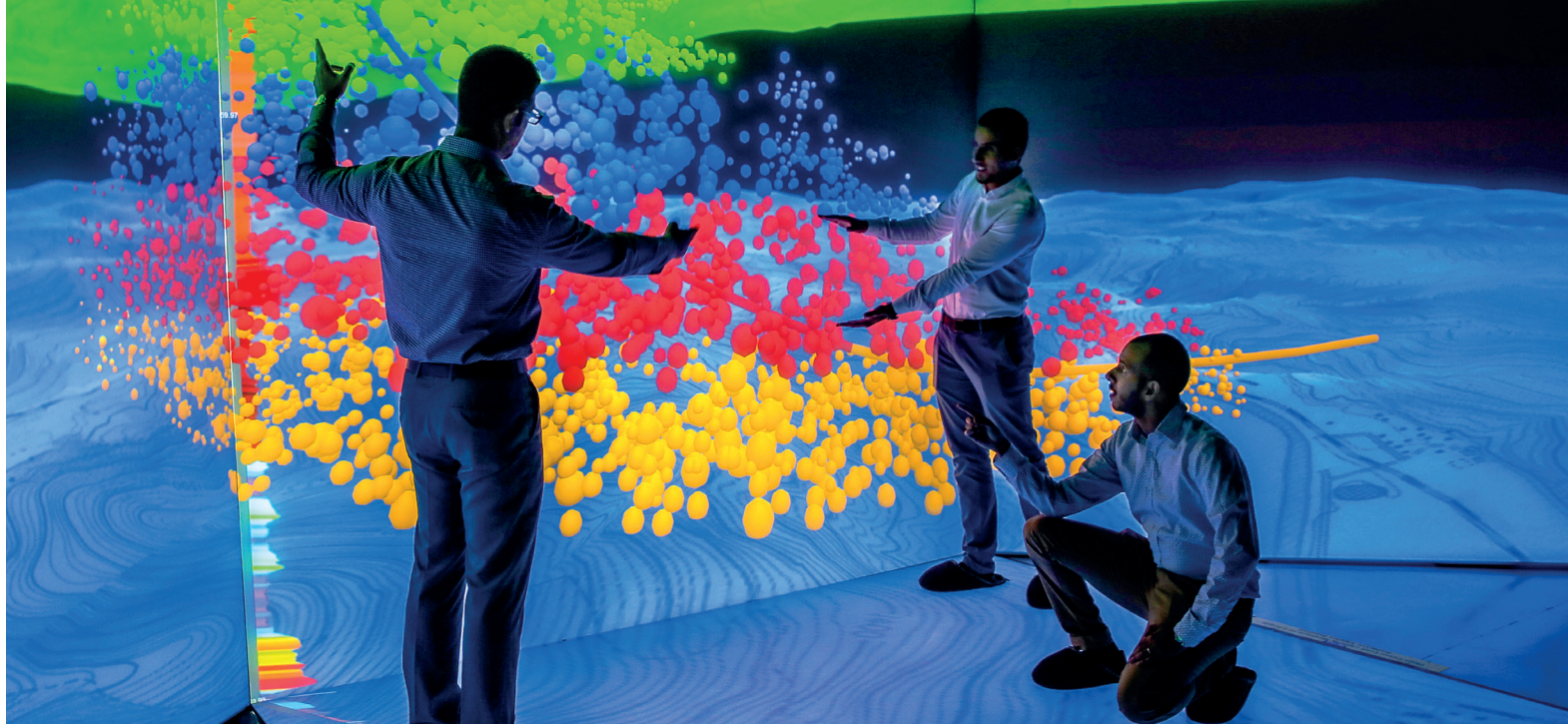
1. That I am a Senior Vice President with DeGolyer and MacNaughton, which firm did prepare the report of third party addressed to Saudi Arabian Oil Company dated August 29, 2019, and that I, as Senior Vice President, was responsible for the preparation of this report of third party.
2. That I attended Texas A&M University, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 1983; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the Society of Petroleum Engineers; and that I have approximately 36 years of experience in oil and gas reservoir studies and reserves evaluations.

SIGNED: August 29, 2019



A handwritten signature in black ink that reads "Regnald A. Boles". The signature is written in a cursive style and is positioned above a horizontal line.

Regnald A. Boles, P.E.  
Senior Vice President  
DeGolyer and MacNaughton



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-DEX<sup>2</sup>  
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