

## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing.** The following applies to the Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, 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.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE FOLLOWING BASE PROSPECTUS 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 BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, an investor must be either (1) a Qualified Institutional Buyer (“**QIB**”) (within the meaning of Rule 144A under the Securities Act) or (2) a person that is not a U.S. person (within the meaning of Regulation S under the Securities Act) purchasing the securities in offshore transactions outside the United States in reliance on Regulation S under the Securities Act. The Base Prospectus is being sent at your request and, by accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that (1) you are (or, if you are acting for the account of another person, such person is) either (a) a QIB or (b) not a U.S. person and that the electronic mail address that you gave us and to which the Base Prospectus has been delivered is (or, if you are acting for the account of another person, that such person is) not located in the United States and (2) you consent (and, if you are acting for the account of another person, such person consents) to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor any sale of these securities in any jurisdiction in which such offer, solicitation or sale, would be unlawful. The Base Prospectus may be communicated solely to (1) persons outside the United Kingdom or (2) 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 the Issuer (as defined in the Base Prospectus) may otherwise lawfully be communicated or caused to be communicated (all such persons in (1) and (2) above being “**relevant persons**”). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

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 on behalf of J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Citigroup Global Markets Limited, Goldman Sachs International, HSBC Bank plc or NCB Capital Company (as the case may be) in such jurisdiction.

**This Base Prospectus has been sent to you 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 the Dealers (as defined in the Base Prospectus) 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 Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any such Dealer.**

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## SAUDI ARABIAN OIL COMPANY

*(incorporated as a joint stock company under the laws of the Kingdom of Saudi Arabia)*

### Global Medium Term Note Programme

Saudi Arabian Oil Company (the “**Issuer**”) has established a Global Medium Term Note Programme (the “**Programme**”), pursuant to which it may from time to time issue notes (the “**Notes**”) denominated in any currency agreed with the relevant Dealer(s) (as defined below). The Notes will be constituted by and have the benefit of a trust deed dated 1 April 2019 (as may be supplemented, amended or restated from time to time, the “**Trust Deed**”), between the Issuer and Citibank N.A., London Branch (the “**Trustee**”, which term shall include any successor trustee under the Trust Deed).

Application has been made (i) to the Financial Conduct Authority (the “**UK Listing Authority**”) under Part VI of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”), for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and (ii) to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Regulated Market**”). References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU, as amended (“**MiFID II**”). Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, and the completion of certain other terms and conditions which are applicable to, each Tranche (as defined below) of Notes will be set forth in a final terms (the “**Final Terms**”), which, in order for Notes to be admitted to the Official List and to be admitted to trading on the Regulated Market, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

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#### AN INVESTMENT IN THE NOTES INVOLVES RISKS. SEE “RISK FACTORS”.

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The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). Notes may be offered and sold (i) within the United States to qualified institutional buyers (“**QIBs**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)), in reliance on the exemption from registration provided by Rule 144A (“**Rule 144A Notes**”) and (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S (“**Regulation S**”) under the Securities Act (“**Regulation S Notes**”). Prospective purchasers are hereby notified that sellers of Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The minimum denomination of any Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Subject thereto and in compliance with all applicable legal, regulatory or central bank requirements, Notes will be issued in such denominations as may be specified in the applicable Final Terms.

The Issuer has been assigned a long-term issuer rating of A1 by Moody’s Investors Service Limited (“**Moody’s**”) and A+ by Fitch Ratings Limited (“**Fitch**”). The Programme has been assigned a rating of A1 by Moody’s and A+ by Fitch. Each of Moody’s and Fitch is established in the European Economic Area and is registered under Regulation (EC) No. 1060/2009, as amended (the “**CRA Regulation**”). As such, each of Moody’s and Fitch is included in the list of credit rating agencies published by the European Securities and Market Authority (“**ESMA**”) on its website in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating(s) will be specified in the applicable Final Terms. Such rating will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Amounts payable under the Notes may be calculated by reference to either LIBOR or EURIBOR, which are provided by ICE Benchmark Administration Limited (“**ICE**”) and the European Money Markets Institute (the “**EMMI**”), respectively. As at the date of this Base Prospectus, ICE and the EMMI do not appear on the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011 (the “**Benchmark Regulation**”). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that ICE and the EMMI are not currently required to obtain authorisation or registration.

#### *Arrangers and Dealers*

J.P. Morgan

Morgan Stanley

#### *Dealers*

Citigroup

Goldman Sachs  
International

HSBC

NCB Capital Company

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche of Notes, should be read and construed together with the applicable Final Terms. This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. The expression “**Prospectus Directive**” means Directive 2003/71/EC, as amended or superseded, and includes any relevant implementing measure in any relevant Member State of the European Economic Area.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview—Overview of the Programme*” and any additional Dealers appointed under the Programme from time to time by the Issuer (each, a “**Dealer**” and, together, the “**Dealers**”), which appointment may be for a specific issue of Notes or on an ongoing basis. In the context of a discussion of an issue of a particular Tranche of Notes, reference in this Base Prospectus to “**relevant Dealer**” or “**relevant Dealers**” shall be to the Dealer or Dealers agreeing to subscribe for the particular Tranche of Notes.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The language of this Base Prospectus and the Final Terms in respect of any Tranche of Notes is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee or any Dealer or the Registrar, the Exchange Agent, any Paying Agent, any Transfer Agent or the Calculation Agent (collectively, the “**Agents**”).

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by the Issuer, the Trustee, the Dealers, the Arrangers or the Agents that any recipient of this Base Prospectus, or any other information supplied relating to the Programme or any Notes, should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Trustee, the Dealers, the Arrangers, the Agents or any other person to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is prohibited.

No representation or warranty is made or implied by the Trustee, the Dealers, the Arrangers, the Agents or any of their respective affiliates, and none of the Trustee, the Dealers, the Arrangers, the Agents nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date hereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented, or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Furthermore, none of the Issuer, the Trustee, the Dealers, the Arrangers or the Agents makes any representation about the treatment for taxation purposes of payments or receipts in respect of any Notes received by any Noteholder. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of Notes, the merits and risks of investing in Notes and the information contained or incorporated by reference in this Base Prospectus and any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in Notes and the impact Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's home currency;
- understand thoroughly the terms of Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial advisor) to evaluate how such Notes will perform under changing conditions, the resulting effects on the value of Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to applicable legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions that apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The distribution of this Base Prospectus, any supplement and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus, any supplement or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus, any supplement or any Final Terms and other offering material relating to the Notes, see "*Transfer Restrictions*" and "*Subscription and Sale*".

This Base Prospectus may be communicated solely to (A) persons outside the United Kingdom or (B) persons inside the United Kingdom who are (i) 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**"), (ii) 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 (iii) 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 the Issuer may otherwise lawfully be communicated or caused to be communicated (all such persons in (A) and (B) above being "**relevant persons**"). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

**THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**



## MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Final Terms in respect of any Notes may include a legend entitled “MiFID II Product Governance”, which will outline the target market assessment in respect of the Notes and which channels for distribution of Notes are appropriate. Any person subsequently offering, selling or recommending Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Notes whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for purposes of the MiFID Product Governance Rules.

## NOTICE TO EEA RETAIL INVESTORS

Unless the Final Terms in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, the Notes are not intended to be offered, sold or otherwise made available to, and with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client, as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

## STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over allotment must be conducted by the Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws, regulations and rules.

## ADDITIONAL INFORMATION

The Issuer is not required to file periodic reports under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as the Issuer is not a reporting company under Section 13 or 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer will, upon request, furnish to each holder of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder upon request of such holder or prospective purchaser, in connection with a transfer or proposed transfer of any Rule 144A Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. As long as the relevant Notes are represented by a Rule 144A Global Note (as defined herein), for the purposes of this paragraph, the expression “holder” shall be deemed to include account holders in the clearing systems who have interests in the relevant Rule 144A Global Note.

## NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the “**CMA**”). The CMA does not make any representations as to the accuracy or completeness of this Base Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus, he or she should consult an authorised financial adviser.

## U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note (as defined below) or any Notes issued in exchange or substitution therefor (together “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Transfer Restrictions*” and “*Subscription and Sale*”.

## PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

### Certain Terms

See Appendix A for a glossary of defined terms used in this Base Prospectus and see Appendix B for a glossary of measurement and technical terms used in this Base Prospectus.

Further, references to the “**Company**” herein are to Saudi Arabian Oil Company together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.

Certain figures and percentages included in this Base 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 Financial Statements have been prepared in accordance with IFRS and have been audited by the Company’s independent auditors, PricewaterhouseCoopers Public Accountants, as stated in their audit reports for the 2017 Financial Statements and the 2018 Financial Statements appearing on pages F-81 and F-3 of this Base Prospectus, respectively. The Company’s financial information as at and for years ended 31 December 2018 and 2017 included in this Base Prospectus has, unless otherwise indicated, been derived without material adjustment from the 2018 Financial Statements and 2017 Financial Statements, respectively. The financial information as at and for the year ended 31 December 2016, has been derived without material adjustment from the comparative column of the 2017 Financial Statements.

The SABIC Financial Statements have been prepared in accordance with IFRS and have been audited by SABIC’s independent auditors, Ernst & Young & Co. (Certified Public Accountants), as stated in their audit report appearing on page F-147 in this Base Prospectus. The financial information included in this Base Prospectus relating to SABIC has, unless otherwise indicated, been derived without material adjustment from the SABIC Financial Statements. For further information on the Company’s proposed acquisition of an equity interest in SABIC, see “*Overview—Overview of the Company—Proposed Acquisition of Equity Interest in SABIC*”.

IFRS differs in certain material respects from U.S. generally accepted accounting principles and, as such, the Company’s financial statements are not comparable to the financial statements of companies prepared in accordance with U.S. generally accepted accounting principles. This Base Prospectus does not include any explanation of the differences or any reconciliation between IFRS and U.S. generally accepted accounting principles with respect to any financial statements and related footnote disclosures included herein or any other financial information. It is possible that a reconciliation or other qualitative or quantitative analysis would identify material differences between the financial statements and related footnote disclosures included herein and other financial information prepared under IFRS and U.S. generally accepted accounting principles or any other systems of generally accepted accounting principles.

Prospective investors are advised to consult their professional advisors for an understanding of: (i) the differences between IFRS and U.S. generally accepted accounting principles or any other systems of generally

accepted accounting principles in the jurisdictions of such prospective investors and how those differences might affect the financial information included in this Base Prospectus and (ii) 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 condition, results of operations and cash flow, as well as on the comparability of the prior periods. In particular, the IASB has introduced a new lease standard, IFRS 16—Leases (which superseded IAS 17—Leases, IFRIC 4, SIC 15 and SIC 27), which the Company has adopted with effect from 1 January 2019. For further information on the anticipated impact of IFRS 16 on the Company's financial statements, see *“Management's Discussion and Analysis of Results of Operations and Financial Condition—New or Amended Accounting Standards”* and Note 2(c) to the Company's 2018 Financial Statements included elsewhere in this Base Prospectus.

In addition, this Base Prospectus includes certain non-IFRS financial measures. See *“—Alternative Performance Measures”* below.

The financial information included in this Base Prospectus is not intended to comply with the applicable accounting requirements of the Securities Act and the related rules and regulations which would apply if the Notes were being registered with the SEC.

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

Effective 1 January 2017, the Government adopted a number of changes to the fiscal regime under which the Company operates. These changes materially impact the Company's results of operations and make the Company's consolidated financial statements for the 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 *“Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—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 *“Business—Relationship with the Kingdom—The Concession”*. Unless otherwise indicated, any reference in this Base 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 exclude 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 Base 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 and the Society of Petroleum Evaluation Engineers. Reserve estimation is an inherently complex process that principally relies on a combination of knowledge, experience and 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 Base 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 *“Business—Operating Segments—Upstream—Reserves”*.

Pursuant to a production sharing agreement between the Company and Bahrain Petroleum Company regarding the Abu Sa'fah field, the Kingdom of Bahrain is entitled to 50% of the volumes produced from Abu Sa'fah. The Company's MSC includes 100% of the volumes produced from Abu Sa'fah. However, the Company's production does not include the Kingdom of Bahrain's entitlement to volumes produced from Abu Sa'fah, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016, 2017 and 2018, respectively.

## Industry and Other Information

This Base Prospectus refers to information regarding the industry and the marketplaces in which the Company operates and competes. The Company has commissioned the Industry Consultant to prepare information for the Company. The statistical, graphical and other information contained herein under “*Industry Overview*” has been drawn from the Industry Consultant’s databases and other sources.

Certain economic and industry data and forecasts used in this Base 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. The Company has not independently verified them and cannot guarantee their accuracy or completeness. 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 Base Prospectus.

Elsewhere in this Base 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.

## Currencies and Exchange Rates

All references in this Base Prospectus to:

- “**Euro**”, “**EUR**” and “**€**” are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
- “**Pounds Sterling**” and “**£**” are to Pounds Sterling, the legal currency of the United Kingdom;
- “**Saudi Riyal**” and “**SAR**” are to the Saudi 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 Base Prospectus, the Saudi Riyal has been pegged to the U.S. Dollar at a fixed exchange rate of SAR3.75 = U.S.\$1.00. In cases where amounts included in this Base 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.

## Alternative Performance Measures

In this Base Prospectus, the Company uses the following metrics in the analysis of its business and financial condition, each of which it considers to constitute an Alternative Performance Measure (“**APM**”), as defined in the ESMA Guidelines on Alternative Performance Measures dated 5 October 2015.



Set out below is a summary of the APM metrics used, the definition, bases of calculation and reconciliation of such metrics and the rationale for the inclusion of such metrics.

<b>Metric</b>	<b>Definition, method of calculation and reconciliation to financial statement line item</b>	<b>Rationale</b>
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

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

For a reconciliation of certain of the APMs used in this Base Prospectus to the most closely related financial measure set forth on the Company’s Financial Statements, see “*Alternative Performance Measures*”.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus, any supplement thereto and any Final Terms may contain certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Company regarding such items. 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 results of operations and financial condition 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 results of operations, financial condition 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 Base 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;
- the cyclical nature of the oil and gas, refining and petrochemicals industries;
- weather conditions;
- managing the growth of the Company;
- risks in connection with projects under development 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;
- international trade litigation, disputes or agreements; and
- political and social instability and unrest and actual or potential armed conflicts in the MENA region and other areas.

The sections of this Base Prospectus entitled “*Risk Factors*” and “*Management’s Discussion and Analysis of Results of Operations and Financial Condition*” 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 Base Prospectus, any supplement thereto and any Final Terms may not occur.

The Issuer undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Issuer 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 Base Prospectus, any supplement thereto and any Final Terms.

## **RESPONSIBILITY STATEMENT**

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Company and the Notes, which is necessary to enable investors to make an informed assessment of the Company's assets and liabilities, financial condition and profit and losses and prospects.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Where third party information has been used in this Base Prospectus, the source of such information has been identified. Such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **SUPPLEMENTS TO THIS BASE PROSPECTUS**

Following the publication of this Base Prospectus, supplements may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus that is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

The Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplemental Base Prospectus will be published, if appropriate, which will describe the effect of the agreement reached in relation to such Series of Notes.

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

The Issuer 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 outside the Kingdom upon the Issuer.

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 reexamining 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 (i) 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 (ii) decline to entertain original actions brought in the Kingdom against the Issuer or its directors or officers predicated upon the securities laws of the United States or any state in the United States.

For more information, see "*Risk Factors—Risks Relating to Enforcement*".

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## RISK FACTORS

*Prospective investors should carefully consider the risks described below before making an investment decision. If any of the risks described below materialise, the Company's business, financial condition, cash flow and results of operations and the trading price of the Notes may be materially adversely affected. In such case, investors in the Notes may lose all or part of their investment. Additional risks and uncertainties not currently known to the Company or that the Company currently deems immaterial may also materially and adversely affect the Company and the trading price of the Notes.*

### **Risk Factors Relating to the Company**

***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 2016, 2017 and 2018, respectively. 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 36% of global refined product demand in 2018 and is expected to account for approximately 39% of global refined product demand in 2030 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 and is represented at OPEC meetings by the Minister of MEIM, who is also the Chairman of the Company's Board of Directors (see "*Business—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 "*Risk Factors Relating to the Company's Industry and Regulatory Environment—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*");
- changes to environmental or other regulations or laws applicable to crude oil and related products or the energy industry (see "*Risk Factors Relating to the Company's Industry and Regulatory Environment—The Company's operations are subject to extensive 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/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 crude oil prices witnessed a significant decline between mid-2014 and early 2016, with Brent prices declining from a monthly average of \$112.0 per barrel in June 2014 to a monthly average of \$31.9 per barrel in January 2016. Since January 2016, Brent prices fluctuated from a monthly average low of \$31.9 per barrel in 2016 to a monthly average high of \$80.6 per barrel in October 2018. Most recently, the Brent price fell to a monthly average of \$57.7 in December 2018 and subsequently increased to a monthly average of \$64.4 in February 2019. For a discussion of liquids supply and demand balance, see "*Industry Overview—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.

***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 2016, 2017 and 2018, 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 crude production. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Upstream Liquids Sales". In addition, the Company expects to export additional crude to Asia as new downstream assets in Asia commence operations. See "Business—Operating Segments—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 in the local marketplace 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 area. Moreover, any such development in other parts of the world 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 condition and 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.***

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

***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 and the Society of Petroleum Evaluation Engineers. Reserve estimation is an inherently complex process that principally relies on a combination of knowledge, experience and 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 “*Business—Overview—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 Base 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, will prove to be appropriate or 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 reserve estimates are subject to change due to errors in the application of published rules and changes in guidance. Any material reduction in the quantity or value of the Company’s proved reserves could affect the Company’s business and reputation.

***The independent third party certification with respect to the Kingdom’s estimated reserves does not cover the entirety of its reserves.***

The Company retained independent petroleum consultants, D&M, to audit, as at 31 December 2017, reservoirs the Company believes accounted for approximately 80% of the Kingdom’s oil equivalent reserves to which the Company has rights under the Concession and remain to be produced after 31 December 2017 but before 31 December 2077 (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 certification of 208.7 billion barrels of oil equivalent reserves for the reservoirs it audited was 0.1% higher than the Company’s internal estimation for the same reservoirs.

There is no independent third party certification with respect to the balance of the Kingdom’s proved oil equivalent reserves or as at a more recent date than 31 December 2017. See “*General Information—Expert*”. Any material deviation in the quantity of proved reserves could have a material adverse effect on the Company’s financial condition and reputation.

***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. 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 damage the Company’s reputation, which could have a material adverse effect on its business. In addition, the Company is not insured against all risks and the availability of insurance in connection with these risks and hazards may not be available. See “—*The Company could be subject to losses from uninsured risks or risks for which its insurance does not cover the entire loss*”.

Furthermore, the Company relies heavily on a cross-country pipeline system and terminal facilities to transport crude oil and products through the Kingdom. In addition, 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 2018. 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 condition and results of operations.

***The Company could be subject to losses from uninsured risks or risks for which its insurance does not cover the entire loss.***

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.

The Company believes that it maintains insurance coverage consistent with industry practice and subject to customary deductibles, caps, exclusions and limitations. However, consistent with others in the industry, it does not insure against all risks and its insurance does not protect it against liability from all potential events, particularly catastrophic events such as major crude oil spills or environmental disasters. 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 with coverage the Company believes to be customary and appropriate. 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 condition and results of operations.

***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. 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 or complying with applicable regulations;
- difficulties coordinating multiple third party contractors and sub-contractors involved in complex projects;
- making economic estimates or assumptions based on data or conditions, including crude 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 set forth above. If projects are delayed or cost more than expected, the Company's operations and expected levels of production could be impacted and such projects may not generate the expected returns. These occurrences could result in the Company recognising impairments and could have a material adverse effect on the Company's business, financial condition 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 and SAR 131.8 billion (\$35.1 billion) for the years ended 31 December 2016, 2017 and 2018, respectively. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Cash Flow Used in Investing Activities—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 condition and results of operations.

***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. These antitrust litigations 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 condition 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 have been filed by private parties, shareholders, public interest organisations, cities and other localities, especially in the United States, against companies in the oil and gas industry relating to climate change matters, including 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 2018, 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 future.

Litigation could result in substantial costs, require the Company to devote substantial resources and divert management attention, which may have a material adverse effect on the Company's business, financial condition and results of operations. For further details on litigation, see "*Business—Litigation*".

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

The Government adopted the following changes to the fiscal regime under which the Company operates, effective as at 1 January 2017:

- the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50% (the 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 (see "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*"));
- royalties payable by the Company are paid based on production rather than sales and are recorded as an expense rather than a reduction in revenue; and
- the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly foregoes as a result of selling crude oil, kerosene, diesel, heavy fuel oil and gasoline in the Kingdom at regulated prices.

In addition, effective from 1 January 2018, a 20% rate applies to the 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, fractionation and transportation of associated and non-associated natural gas and their liquids, gas condensates and other associated elements.

Furthermore, 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 2017 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 2017 Financial Statements and Note 31(a) to the 2018 Financial Statements.

These changes materially impact the Company's results of operations and make the Company's consolidated financial statements for the 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 Notes to compare the Company's financial results in the periods presented could make determining the value of the Notes 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 "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*" and "*—Investments and Acquisitions in Expansion of Downstream Segment—Completion of Motiva Transaction*".

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

The Company may 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 condition and results of operations.

On 27 March 2019, the Company announced that it had 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 acquisition is subject to customary closing conditions and is currently expected to occur in 2020. 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.

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 condition 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 Issuer in favour of the PIF in an aggregate amount equal to half of the \$69.1 billion purchase price plus certain other amounts. The promissory notes will be fully transferable and assignable and may be pledged by the PIF, subject to a right of first refusal in favour of the Company to purchase the promissory notes if the PIF receives any offer or commitment of financing which would include a transfer of the promissory notes. See "*Overview—Proposed Acquisition of an Equity Interest in SABIC*". The PIF could receive an offer or commitment of financing at any time after the closing of the acquisition. Consequently, the Company does not control the timing of when it would need to fund the payment of its right of first refusal. The Company may not be able to arrange financing on acceptable terms or at all to fund its right of first refusal, in which case it would need to use its cash on hand, any of which could have an adverse effect on the Company's financial condition and cash flow.

Following the proposed acquisition, SABIC is expected to remain a listed company on Tadawul, its board of directors will continue to owe duties to its minority shareholders and 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 an equity interest in SABIC, see "*Overview—Overview of the Company—Proposed Acquisition of Equity Interest in SABIC*".



***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 2017 and 2018, 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 condition and results of operations.

***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, and differing anti-bribery and corruption regimes may be applicable.***

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 EU 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 natural 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 EU targeting the Russian financial, defence and energy sectors.

The Company has recently introduced new corporate governance and compliance policies (including with respect to sanctions and trade restrictions, anti-bribery and corruption) and is instituting procedures in order to (i) identify potential transactions or dealings with sanctioned parties and parties at risk of being subject to sanctions and (ii) promote and ensure compliance with applicable anti-bribery and corruption laws. However, no assurance can be made that the Company's policies will always protect it from improper conduct of its employees or business partners. If the Company were to be sanctioned in the future, or sanctioned as a result of its transactions with other parties or otherwise, such sanctions could result in substantial civil or criminal penalties, or both, and could have a material adverse effect on investments in the Notes, including the imposition of restrictions on investors disposing their interests in the Notes.

***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.

Given the concentration of the Company's workforce in the Kingdom, where there is currently a shortage of experienced and skilled oil and gas professionals, it may have difficulty hiring and retaining 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 replacements domestically or internationally 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 condition and results of operations.

***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. While the Company seeks to maintain a secure network infrastructure to protect against critical data loss and to ensure operational integrity and continuity, 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 2012 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 incidents has 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 information, and could have a material adverse effect on the Company's operations and reputation. For further information on the Company's cybersecurity, see "*Business—IT and Cybersecurity*".

**Risk Factors Relating to the Company's Industry and Regulatory Environment**

***The Government determines the Kingdom's maximum level of crude oil production and 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 others, 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. 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, although the Company has historically utilised a significant amount of this spare capacity, there can be no assurance that it will do so in the future. In addition, the Government has decided in the past and may in the future decide to increase MSC. As at 31 December 2018, 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 condition and results of operations.

***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 2016 and 2017, respectively. Furthermore, the oil sector accounted for 64.2% and 63.0% of the Government's total revenues in the years ended 31 December 2016 and 2017, respectively. 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.

The changes made to the Kingdom's tax regime for hydrocarbon producers and the royalty rate to which the Company is subject, both of which became effective on 1 January 2017, 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, in 2017, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly foregoes as a result of selling crude oil, kerosene, diesel, heavy fuel oil and gasoline in the Kingdom at regulated prices, which further impacts the Kingdom's cash flow. Moreover, effective 1 January 2017, 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 *"Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes"*. In 2016, 2017 and 2018, 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 condition and results of operations and affect its ability to make planned investments or to make payments on the Notes.

***If domestic demand for natural gas exceeds domestic production, the Company may need to make additional investments in its gas operations or import gas.***

The Concession requires the Company to meet, through domestic production or imports, all domestic demand for hydrocarbons, including natural gas. 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.

In-Kingdom demand for gas has been increasing and is projected to grow in the future. According to the Industry Consultant, gas demand in the Kingdom is expected to grow at a CAGR of 3.7% from 2017 to 2030. While the Company has expanded, and will continue to expand, its gas operations to address the increase in domestic demand, demand may nonetheless exceed the Company's planned production.

If domestic demand for gas grows beyond the Company's planned production, the Company may expand its gas operations, explore for new non-associated gas reserves or pursue unconventional gas resources, such as shale gas. In addition, the Company may import natural gas if doing so is more economical than producing additional gas domestically. The cost of any of these alternatives could be significant, particularly for pursuing unconventional gas resources, which typically have higher exploration, production, and development costs than conventional gas resources. The regulations passed by the Council of Ministers and issued by MEIM also provide a framework for pricing new projects such that the Company will receive a commercial rate of return for each project. However, there is no assurance that the Council of Ministers and MEIM will adjust the regulated price for natural gas in the future to accommodate these new projects and any inability of the Company to realise a commercial rate or return on new gas operations could have an adverse effect on its financial condition and results of operations. See *"Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operation and Financial Condition—Fiscal Regime Changes—Gas Price System"* and *"Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Gas Pricing"*.

***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 2016, 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 and its subsidiaries operate that are not currently subject to GHG regulation may become regulated and existing GHG regulations may become more stringent. See “*Business—Environment, Health and Safety—GHG Emissions Management*”.

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 lower carbon intensity fossil fuels, reduce demand for hydrocarbons and hydrocarbon-based products, have a material adverse effect on the Company’s business, financial condition and results of operations.

***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 condition.***

The Company is headquartered and conducts much of its business in the MENA region, which is strategically important geopolitically and has been subject to political and security concerns and social unrest, especially in recent years. For example, since 2011, a number of countries in the MENA region have witnessed serious social unrest, including widespread public demonstrations, and, in certain cases, armed conflict, terrorist attacks, diplomatic disputes, foreign military intervention and a change of government.

As at the date of this Base Prospectus, armed conflict is ongoing in Yemen, Iraq, Syria and Libya and, since 2017, several ballistic missiles were fired into the Kingdom from Yemen, including at the Jazan region where the Company has refining and chemicals facilities. 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 and may be affected. 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 condition 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 products and are located in areas subject to political or armed conflict from time to time. For example, in April and July 2018, Yemen’s Houthi group attacked tankers operated by the Saudi National Shipping Company 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 condition and results of operations.

Furthermore, there is a risk of terrorism or other armed conflict in the Kingdom and other jurisdictions in which the Company operates, and the Company’s facilities have been targeted in the past. As at the date of this Base Prospectus, such attacks have been thwarted, but no assurance can be given that such attacks will be thwarted in the future. An attack on a field, facility or a pipeline could result in that field, facility or pipeline ceasing operations, which could have a material adverse effect on the Company’s business, financial condition 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 condition 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 the willingness of investors to invest in the Kingdom or companies that are based in the Kingdom, which may in turn adversely affect the market value of the Notes.

***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 “*Business—Relationship with the Kingdom—The Concession*” and “*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 condition 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 condition 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 condition and results of operations could be materially and adversely affected.

***The 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 LPG through domestic production or imports. In addition, pursuant to the Kingdom's regulatory regime, the Company is required to sell crude oil, kerosene, diesel, heavy fuel oil and gasoline to third parties in the Kingdom at the Government's regulated prices. The regulated prices for these products have historically generated less sales revenue for the Company than if the same products had been sold for export.

Effective 1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for the revenue it directly foregoes 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 "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*".

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

***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 licenses, 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 license, permit, or approval required under the Hydrocarbons Law or GSPR, or in relation to activities unrelated to Hydrocarbons operations. See "*Business—Relationship with the Kingdom—The Concession*" and "*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 condition and results of operations.

***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. From time to time, the Company has been subject to shutdowns of certain facilities and in the future may be subject to the partial or total shutdown of related operations or fines for any failure to comply with applicable laws and regulations. Furthermore, 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 condition and results of operations. See "*Business—Environment, Health and Safety*".

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, raw materials or chemical pollution). Any such costs or liabilities could have a material adverse effect on the Company's business, financial condition 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.

***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 domestic laws in the relevant 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 condition 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 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 the Company to alter its operations in a manner that is costly or otherwise has a material adverse effect on its business, financial condition or results of operations. If the Kingdom fails to comply with these trade agreement 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 the Company's business, financial condition and results of operations.

***The Company's financial condition 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 SARs, which have been exchanged at a fixed rate to the U.S. Dollar in the Kingdom since 1986. 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 condition and results of operations.

In addition, the Company pays dividends to its sole 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 condition.

**Risk Factors Relating to the Structure of a Particular Issue of Notes**

*A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.*

***The Company's financial obligations, including its obligations under the Notes, are not guaranteed by the Government.***

Although the Company is wholly owned by the Government, the Company's obligations under the Notes are not guaranteed by the Government. In addition, the Government is under no obligation to extend financial support to the Company. Accordingly, the Company's financial obligations, including its obligations under the Notes, are not, and should not be regarded as, obligations of the Government. The Company's ability to meet its financial obligations under the Notes is dependent on its ability to fund such amounts from its revenue, net income and

cash flows. Therefore, any decline in the Company's operating revenues, profits and cash flows, or any difficulty in securing external funding, could have a material and adverse effect on the ability of the Company to meet its payment obligations under the Notes.

***Inverse floating rate Notes may be volatile.***

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate (such as LIBOR or EURIBOR). The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of such Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of such Notes.

***Fixed/floating rate Notes have risks that conventional fixed rate notes do not.***

Fixed/floating rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

***Notes may be issued at a substantial discount or premium and the market value thereof may be volatile.***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

***The trading price of any fixed rate Notes is dependent on the interest rate environment and the trading price will fall as prevailing interest rates rise.***

The trading price of any fixed rate Notes will depend on a variety of factors, including, without limitation, the interest rate environment. Each of these factors may be volatile, and may or may not be within the Company's control. Generally, if interest rates rise, or are expected to rise, during the term of any fixed rate Notes, the trading price of such Notes will decrease.

***The Notes may be redeemed prior to their final maturity date for tax reasons.***

If the Issuer becomes obligated to pay any additional amounts in respect of the Notes as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the tax laws or regulations of the Kingdom or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue a Tranche of the Notes, the Issuer may redeem all but not some only of the outstanding Notes of such Tranche in accordance with Condition 6.2 (*Redemption for tax reasons*). In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return, which may have an adverse effect on the position of such investor.

***There are risks that certain "benchmarks" to which the Notes are linked may be administered differently or discontinued in the future, including the potential phasing-out of LIBOR after 2021, which may adversely affect the value and return on such Notes.***

LIBOR, EURIBOR and other interest rates and indices which are deemed to be "benchmarks" are the subject of ongoing regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021, which was further reiterated in an FCA announcement on 12 July 2018 which described the transition away from LIBOR. These FCA announcements indicate that the continuation of

LIBOR on the current basis cannot be guaranteed after 2021 and that planning a transition to alternative reference rates that are based firmly on transactions, such as reformed SONIA (the Sterling Over Night Index Average), must begin. The potential elimination of LIBOR or any other benchmark or changes in the manner of administration of a benchmark could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark.

If LIBOR were discontinued or otherwise unavailable, the rate of interest on floating rate Notes which reference LIBOR will be determined for the relevant period by the fallback provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined under the terms and conditions, this may: (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time; or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any floating rate Notes which reference LIBOR.

### **Risk Factors Relating to the Notes Generally**

***Noteholders are exposed to the consequences of a minimum specified denomination plus a higher integral multiple for the Notes to be traded in clearing systems.***

The Terms and Conditions of the Notes provide that Notes shall be issued with a minimum denomination of €100,000 (or its equivalent in another currency) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If Definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the applicable Global Notes, a holder who does not have an integral multiple of the minimum denomination in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of Definitive Notes unless and until such time as its holding becomes an integral multiple of the minimum denomination.

***An active trading market for Notes may not develop.***

Notes issued under the Programme may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity could have a material adverse effect on the market value of Notes.

Application has been made for the listing of Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. There can be no assurance that either such listings or declaration will be obtained or, if such listings or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for Notes will depend on the number of holders of Notes, the interest of securities dealers in making a market in Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for Notes.

***The market price of Notes may be volatile.***

The market price of Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts, as well as other factors. In addition, the market price of the Notes could be affected by the actual or expected issuance of additional indebtedness of the Company. In this regard, on 27 March 2019, the Company announced it had 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. Half of the purchase price and certain other amounts will be secured by promissory notes to be issued by the Issuer in favour of the PIF. The promissory notes will be fully transferable and assignable and may be pledged by the PIF, subject to a right of first refusal in favour of the Company to purchase the promissory notes if the PIF receives any offer or commitment of financing which would include a transfer of the promissory notes. See "—The Company may not realise some or all of the

*expected benefits of future acquisitions, including with respect to SABIC” and “Overview—Proposed Acquisition of an Equity Interest in SABIC”.*

Furthermore, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could have a material adverse effect on the market price of Notes without regard to the Company’s business, prospects, financial condition, cash flows or results of operations. Factors, including increased competition, fluctuations in commodity prices or the Company’s operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war, could have a material adverse effect on the market price of Notes.

***Exchange rate risks exist to the extent payments in respect of Notes are made in a currency other than the currency in which an investor’s activities are denominated.***

The Issuer will pay principal and interest on the Notes in the Specified Currency (as defined in the Final Terms). This presents certain risks relating to currency conversions if the Investor’s Currency is different from the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the Issuer has no control. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease: (i) the Investor’s Currency equivalent yield on the Notes; (ii) the Investor’s Currency equivalent value of the principal payable on the Notes; and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of payment of principal or interest, if any, on Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note not denominated in U.S. Dollars would not be available at the maturity of a series of Notes. In that event, the Issuer would make required payments in U.S. Dollars on the basis of the market exchange rate on the date of such payment, or if such rate of exchange is not then available, on the basis of the market exchange rate as at the most recent practicable date.

***Credit ratings may not reflect all risks.***

One or more independent credit rating agencies may assign credit ratings to the Notes. The Company’s credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. The ratings may not reflect the potential impact of all risks related to the structure and marketing of Notes issued under this Base Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any future downgrade or withdrawal at any time of a credit rating assigned to the Company by any rating agency could have a material adverse effect on the market value of the Notes, the Company’s cost of borrowing and its access to debt capital markets. In addition, the Company’s credit rating could be affected by changes in the Kingdom’s credit rating.

***Legal investment considerations may restrict certain investments.***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes constitute legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Notes by the investor. Financial institutions should consult their legal advisers or the relevant regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules and regulations.

***The Issuer may, without the consent of the Noteholders, issue additional Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, may be treated as a separate series for U.S. federal income tax purposes.***

The Issuer may, without the consent of the holders of the Notes of the relevant Series, issue additional Tranches of Notes which may be consolidated and form a single Series with one or more Tranches previously issued. Notwithstanding the foregoing, such additional Tranches may be treated as a separate series for U.S. federal income tax purposes. In such a case, the Notes of any such additional Tranche may be considered to have been issued with “original issue discount” for U.S. federal income tax purposes and this may reduce the market value of the Notes of such Tranche to certain classes of investors.



## **Risk Factors Relating to Enforcement**

***Enforcement in the Kingdom of an arbitral award relating to the Notes may be challenged in certain circumstances and enforcement may take a significant amount of time.***

The Trust Deed provides that any dispute, claim, difference or controversy arising out of, relating to, or having any connection with the Notes and the Trust Deed shall be referred to, and finally resolved by, arbitration under the Arbitration Rules (“**LCIA Rules**”) of the London Court of International Arbitration (the “**LCIA**”), in London, England. Noteholders will therefore only have recourse to LCIA arbitration in order to enforce their contractual rights relating to the Notes.

The Kingdom is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Accordingly, courts in the Kingdom have an obligation to recognise and enforce foreign arbitral awards unless (i) the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, which include, without limitation, that the agreement is not valid under the law governing it, the party against whom the award is invoked was not given proper notice of the arbitration proceeding, the award contains decisions beyond the scope of the matters submitted to arbitration and the award has been set aside or suspended by a competent authority of the country in which, or under the law of which, the award was made, or (ii) the Kingdom courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement or would be contrary to the public policy of the Kingdom. For example, the laws of the Kingdom do not recognise the concept of a trust and, accordingly, the Kingdom courts may recharacterise the trust established pursuant to the Trust Deed in the context of the concept of *amanah*. Under Saudi Arabian law, an *amin* is a person who is charged with the responsibility of holding and/or looking after assets belonging to another (*amanah*). An *amin* would be responsible for maintaining the assets it is holding for another and would be liable for any damage or loss caused to such assets where the damage or loss is caused by the *amin*’s negligence or by acting *ultra vires*. As such, there can be no assurance that the obligations of the Trustee under the Trust Deed to act on behalf of the Noteholders in accordance with their instructions would be enforceable or recognised under the laws of the Kingdom in the same manner as under English law. In addition, pursuant to the New York Convention, enforcement of any arbitral award in the Kingdom is subject to filing a legal action for recognition and enforcement of the foreign arbitral award with the enforcement departments of the general courts in the Kingdom, which can take considerable time.

As a result, enforcement of an arbitral award relating to the Notes in the Kingdom may take a significant amount of time and enforcement of any arbitration award in the Kingdom may be challenged in the circumstances described above. Since a substantial portion of the Issuer’s assets and operations are located in the Kingdom, delay in enforcement in the Kingdom of an arbitral award relating to the Notes or any inability to enforce an arbitral award in the Kingdom could have a material adverse effect on Noteholders’ recourse to the Issuer’s assets to satisfy amounts due under the Notes.

***Foreign judgments may not be enforceable against the Issuer and it may not be possible to effect service of process on the Issuer.***

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 reexamining 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 (i) 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 (ii) decline to entertain original actions brought in the Kingdom against the Issuer or its directors or officers predicated upon the securities laws of the United States or any state in the United States.

Additionally, the Issuer 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 upon the Issuer outside the Kingdom.

The inability to enforce a foreign judgment or effect service of process in the Kingdom could have a material adverse effect on Noteholders’ recourse to the Issuer’s assets with respect to any claim.

***Contractual obligations governing the payment of interest may not be enforceable under Saudi Arabian law.***

The legal regime in the Kingdom governing transactions such as the issuance of the Notes includes *Shari’ah* principles which are often expressed in general terms, providing Saudi Arabian courts and adjudicatory bodies



with considerable discretion as to how to apply such principles. Under *Shari'ah* principles as applied in the Kingdom, the charging and payment of interest, which is deemed to constitute unlawful gain (*riba*), is prohibited. To the extent that any contractual provision of the Notes is viewed or characterised by a Saudi Arabian court or adjudicatory body as relating to interest, such provision may not be enforceable in the Kingdom.

***Noteholders are subject to risks related to a possible change in law.***

The structure of the issue of Notes is based on English law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to English law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

No assurance can be given as to the impact of any possible judicial decision or changes in English law or administrative practice after the date of this Base Prospectus.

***Provisions of Notes permit defined majorities to bind all Noteholders and the Trustee to take certain actions.***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to: (i) certain modifications of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) or potential Event of Default shall not be treated as such where, in each case, it is not materially prejudicial to the interests of the Noteholders.

**Risks Factors Relating to Notes Denominated in Renminbi**

*RMB Notes may be issued under the Programme. A description of risks which may be relevant to an investor in RMB Notes is set out below:*

***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the People's Republic of China (the "PRC"), which may adversely affect the Issuer's ability to satisfy its obligations under RMB Notes.***

The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies. Currently, the Renminbi is not freely convertible into other currencies.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system.

Although, from 1 October 2016, Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund (the "**IMF**"), there is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite the Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to satisfy its obligations under RMB Notes.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the RMB Notes and the ability of the Issuer to source Renminbi outside the PRC to service RMB Notes.***

As a result of the restrictions imposed by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

While the People's Bank of China (“PBoC”) has: (i) entered into the agreements (the “**Settlement Arrangements**”) on the clearing of Renminbi business with financial institutions (the “**Renminbi Clearing Banks**”) in a number of financial centres and cities, including but not limited to Hong Kong, (ii) established the Cross-Border Inter-Bank Payments System to facilitate cross-border Renminbi settlement and (iii) is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC remains limited.

There are restrictions imposed by the PBoC on Renminbi business-participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business-participating banks do not have direct Renminbi liquidity support from PBoC, although PBoC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or that the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service the RMB Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

***Investment in RMB Notes is subject to exchange rate risks.***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the PBoC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to the RMB Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

***Investment in the RMB Notes is subject to currency risk.***

If the Issuer is not able, or it is impracticable for it, to satisfy its obligation to pay interest and principal on the RMB Notes as a result of a Renminbi Currency Event (as defined in Condition 5.6 (*Renminbi Currency Event*)), the Issuer shall be entitled, on giving notice as soon as practicable to the investors in accordance with the Conditions stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed in relation thereto, to settle any such payment in the Relevant Currency (as specified in the applicable Final Terms) converted using the Spot Rate for the relevant Rate Calculation Date (as defined in the Conditions) of any such interest or principal, as the case may be.

***Payments with respect to the RMB Notes may be made only in the manner designated in the RMB Notes.***

All payments to investors in respect of the RMB Notes will be made solely: (i) for so long as the RMB Notes are represented by global certificates held with a common depositary for Clearstream, Luxembourg and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the applicable Final Terms; (ii) for so long as the RMB Notes are represented by global certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures; or (iii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the applicable Final Terms, in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

***Gains on the transfer of the RMB Notes may become subject to income taxes under PRC tax laws.***

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of RMB Notes by a non-PRC resident enterprise or individual holders may be subject to PRC enterprise income tax (“EIT”) or PRC individual income tax (“IIT”) if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20% of the gains derived by such non-PRC resident enterprise or individual holder from the transfer of RMB Notes but its implementation rules have reduced the enterprise income tax rate to 10%. The PRC Individual Income Tax Law levies IIT at a rate of 20% of the gains derived by such non-PRC resident or individual holder from the transfer of RMB Notes.

However, uncertainty remains as to whether the gains realised from the transfer of RMB Notes by a non-PRC resident enterprise or individual holders would be treated as income derived from sources within the PRC and become subject to the EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, holders who are residents of Hong Kong, including enterprise holders and individual holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of RMB Notes.

Therefore, if a non-PRC enterprise or individual resident holders are required to pay PRC income tax on gains derived from the transfer of RMB Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual resident holder of RMB Notes resides that reduces or exempts the relevant EIT or IIT, the value of their investment in RMB Notes may be materially and adversely affected.

## OVERVIEW

*This overview does not contain all of the information that is important to making a decision to invest in Notes. Any decision to invest in Notes should be based on a consideration of this Base Prospectus as a whole. In particular, it is important to carefully consider the Section entitled “Risk Factors” prior to making an investment decision with respect to Notes.*

*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 “Business—Relationship with the Kingdom—The Concession”. Unless otherwise indicated, any reference in this Base 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 exclude 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

#### *Overview of the Company’s Business*

The Company is the world’s largest integrated oil and gas company. In 2018, 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 2016 to 2018. As at 31 December 2017, the Company’s proved liquids reserves were more than five times the combined proved liquids reserves of the Five Major IOCs. In addition, the Company’s net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company’s gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 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 1933 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 business segments are the upstream segment and the downstream segment, which are supported by the corporate segment.

For the year ended 31 December 2018, 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, with a net cash position as at 31 December 2018, which led to a Gearing ratio of (8.6)%. Free Cash Flow and Gearing are non-IFRS measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see “Alternative Performance Measures—Free Cash Flow” and “Alternative Performance Measures—Gearing”.

#### *Upstream*

The Company is the world’s leading producer of crude oil and condensate. In 2018, 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. As at 31 December 2018, 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 2017, the Company’s rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Effective 24 December 2017, the Concession grants 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, which will be extended by the

Government for 20 years provided the Company satisfies certain conditions commensurate with current operating practices. The Excluded Areas consist of: (a) the boundaries of the Holy Mosques in both 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. 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 “*Business—Relationship with the Kingdom—The Concession*”. 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 2018 the Company’s reserves were 256.9 billion barrels of oil equivalent (sufficient for proved reserves life of 52 years), 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 2018, the Company’s portfolio included 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters. As at 31 December 2017, the Company’s reserves were 260.2 billion barrels of oil equivalent (sufficient for proved reserves life of 54 years), consisting of 204.8 billion barrels of crude oil and condensate, 26.0 billion barrels of NGLs and 181.0 trillion standard cubic feet of natural gas, which was significantly longer than the 9 to 15 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 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. As a result, the Kingdom’s estimated proved reserves in the largest fields operated by the Company have increased since their initial production.

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 2017. The Company’s average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced in 2018, following the Industry Consultant’s methodology. In addition, the Company’s upstream capital expenditures for the year ended 31 December 2018 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 Company maintains MSC in accordance with the requirements of 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 31 December 2018, 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 2013 to 2018.

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 2018. The Company is the exclusive supplier of natural gas in the Kingdom, the seventh largest natural gas market in the world according to the Industry Consultant, and supplied 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane in 2018. 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 and supply, trading and marketing operations. The Company's net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 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 crude oil sales, product distribution and power supply.

The Company's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2018. The Company's upstream business supplies all the crude oil 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 2018, 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 downstream's customers.

The Company's refining operations in the Kingdom, including its domestic affiliates, accounted for 62% of its net refining capacity in 2018. 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 the local marketplace, 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, with an increase in net and gross chemical production capacity to 16.8 million and 33.2 million tonnes per year, respectively, as at 31 December 2018. The Company expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's net chemical production capacity to 20.8 million and gross chemical production capacity to 40.2 million tonnes per year.

The Company aims to continue growing and optimising the performance of its downstream business. In addition to continuing to evaluate a number of additional large-scale investment opportunities in high-growth markets globally, the Company is considering a number of low capital cost 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 also 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% and 99.8% of its delivery obligations on time in 2017 and 2018, 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, including human resources, finance, corporate affairs and legal.

### ***Proposed Acquisition of an Equity Interest in SABIC***

On 27 March 2019, the Company announced it had 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 ethylene, ethylene glycol, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. According to its public filings, in 2018 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 2018, SABIC's total assets were SAR 320 billion, net income was SAR 32 billion and total revenue was SAR 169 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, capture additional value and support the Company's downstream growth ambitions. Currently, SABIC's feedstock consists primarily of methane, ethane and propane. The Company believes that acquiring an ownership stake in SABIC presents opportunities for SABIC's expertise in the chemicals industry to be applied to the Company's existing and future integrated downstream facilities with chemicals production capabilities and will support significant expansion of the Company's downstream activities. Following the proposed acquisition, SABIC is expected to remain a listed company on Tadawul.

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 seller loan will be secured by two separate promissory notes issued by the Issuer in favour of PIF. In accordance with the terms of such promissory notes, the Issuer will pay a loan charge to PIF on the closing date in the form of a cash payment equal to \$500 million and the issuance of two additional promissory notes in an aggregate principal amount of \$500 million.

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 31 December 2020, an amount equal to 25% of the purchase price plus a loan charge of \$250 million; and
- (ii) on or before 31 December 2021, an amount equal to 25% of the purchase price plus a loan charge of \$250 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 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 2020. 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.

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

On 29 May 1933, 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 California Arabian Standard Oil Company CASOC as a subsidiary to manage the concession. Texaco acquired a 50% interest in CASOC in 1936. CASOC's first commercial success came in 1938 at a drill site in Dammam, which quickly began producing more than 1,500 barrels of crude oil per day. In 1944, CASOC was renamed Arabian American Oil Company. In 1948, 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 1952, Arabian American Oil Company's headquarters moved from New York to Dhahran, and in 1973, 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 1976. Between 1980 and 1981, the Government increased its participation interest in the company's crude oil concession rights, production and facilities to 100%. During the 1980s, 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 1980s and 1990s, the company established refining and marketing joint ventures in strategic markets around the globe in order to further expand its market and product offerings.

In 1988, 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 4/4/1409 in the Hijri calendar (corresponding to 13 November 1988), to assume the privileges and rights of Arabian American Oil Company.

In 1993, 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 continued to expand its footprint within the Kingdom and internationally, entering into additional ventures with: DowDuPont (Sadara), Lanxess (ARLANXEO), Mobil, whose share was acquired by Jadwa Industrial Investment Company (Luberef), Petronas (PRefChem), Shell (Motiva), Sinopec (YASREF), Sumitomo (Petro Rabigh) and Total (SATORP). The Company also recently acquired full ownership of Motiva (formerly a joint venture with Shell) and ARLANXEO (formerly an associate in partnership with Lanxess) and increased its ownership stake in S-Oil. 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.

### **Business Strategies**

- Maintain position as the world's leading crude oil producer by production volume and the lowest cost producer while providing reliable crude oil supply to customers
- Further diversify operations to capture value from strategic integration
- Expand gas activities to supply gas in the Kingdom and internationally
- Efficiently allocate capital and maintain a prudent and flexible balance sheet
- Expand global recognition of the Company's brands

### **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 upstream 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 international marketplaces
- Refining scale and complexity and enhanced integration
- World class partners

**Company Competitive Strengths**

- Higher operating cash flow, Free Cash Flow 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

## Overview of the Programme

*The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in “Form of the Notes” or “Terms and Conditions of Notes” below shall have the same meanings in this general description.*

<b>Issuer</b> .....	Saudi Arabian Oil Company.
<b>Issuer’s Legal Entity Identifier (LEI):</b> ...	5586006WD91QHB7J4X50.
<b>Description</b> .....	Global Medium Term Note Programme.
<b>Arrangers and Dealers</b> .....	J.P. Morgan Securities plc and Morgan Stanley & Co. International plc.
<b>Dealers</b> .....	Citigroup Global Market Limited, Goldman Sachs International, HSBC Bank plc and NCB Capital Company and any other Dealers appointed in accordance with the Dealer Agreement.
<b>Trustee</b> .....	Citibank N.A., London Branch.
<b>Principal Paying Agent, Transfer Agent and Calculation Agent</b> .....	Citibank N.A., London Branch.
<b>Registrar</b> .....	Citibank Global Markets Europe AG.
<b>Programme Size</b> .....	The Programme size is unlimited.
<b>Issuance</b> .....	<p>Notes will be issued on a syndicated or non-syndicated basis. Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date, issue price and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.</p> <p>Each Tranche will be the subject of Final Terms which, for the purposes of that Tranche only, completes the Conditions of the Notes and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as completed by the applicable Final Terms.</p> <p>See Condition 1 (<i>Form, Denomination and Title</i>) and “<i>Form of Final Terms</i>”.</p>
<b>Forms of Notes</b> .....	<p>Each Series of Notes will be issued in registered form only. The Rule 144A Notes and the Regulation S Notes will initially be represented by the Rule 144A Global Note and the Regulation S Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.</p> <p>See Condition 1 (<i>Form, Denomination and Title</i>).</p>
<b>Clearing Systems</b> .....	Unless otherwise agreed, DTC (in relation to any Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes) and such other clearing system as may be agreed



among the Issuer, the Principal Paying Agent, the Trustee and the relevant Dealer(s).

See “*Form of the Notes*”.

**Currencies** ..... Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements, as specified in the applicable Final Terms. Payments in respect of Notes may, subject to such compliance, be made in, and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

See “*Form of Final Terms*”.

**Status of the Notes** ..... The Notes will constitute direct, general, unconditional and unsecured obligations of the Issuer which will rank *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

See Condition 3 (*Status of the Notes*).

**Issue Price** ..... Notes may be issued on a fully-paid basis and at any price, as specified in the applicable Final Terms.

See “*Form of Final Terms*”.

**Maturities** ..... Any maturity, as specified in the applicable Final Terms, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

See Condition 6 (*Redemption and Purchase*) and “*Form of Final Terms*”.

**Redemption** ..... The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) for taxation reasons as described in Condition 6.2 (*Redemption for tax reasons*) or (ii) following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders (including, where specified as being applicable in the applicable Final Terms following the occurrence of a Change of Control Put Event, as described below) upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified in the applicable Final Terms prior to such stated maturity, and at a price or prices specified in the applicable Final Terms and on such other terms as may be agreed between the Issuer and the relevant Dealer(s).

See Condition 6 (*Redemption and Purchase*) and “*Form of Final Terms*”.

**Change of Control Put** ..... If so specified in the applicable Final Terms, on the occurrence of a Change of Control Put Event, the Noteholders will have the option to require the Issuer to redeem the Notes.

See Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*).

**Specified Denomination** ..... The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) save that (i) the

minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency and (ii) the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than Euro, the equivalent amount in such currency).

For so long as the Notes are represented by a Global Note, and the relevant clearing system(s) so permit, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of any smaller amount specified in the applicable Final Terms.

Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in another currency).

See Condition 1 (*Form, Denomination and Title*).

**Interest** ..... Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate.

See Condition 4 (*Interest*) and “*Form of Final Terms*”.

**Fixed Rate Notes** ..... Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).

See Condition 4.1 (*Interest on Fixed Rate Notes*) and “*Form of Final Terms*”.

**Floating Rate Notes** ..... Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series);
- (b) on the basis of a reference rate (LIBOR or EURIBOR) appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s).

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).

See Condition 4.2 (*Interest on Floating Rate Notes*) and “*Form of Final Terms*”.

**Zero Coupon Notes** ..... Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

**Negative Pledge** ..... The Notes contain no negative pledge.

**Cross Default** ..... The Notes contain no cross default.

**Taxation** ..... All payments in respect of Notes will be made free and clear of withholding taxes of the Kingdom and other Relevant Tax Jurisdictions (as defined in Condition 7 (*Taxation*)) unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 7) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

See “*Taxation*”.

In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by the Kingdom of Saudi Arabia or any other Relevant Jurisdictions on payments of principal and interest in respect of the Notes, the Issuer will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required.

See Condition 7 (*Taxation*).

**ERISA** ..... Generally, Notes may be acquired and held by employee benefit plans and other plans that are subject to ERISA (as defined below) or Section 4975 of the Code (as defined below) and by other employee benefit plans, subject to certain restrictions. Purchasers, transferees and holders of Notes will be deemed to have given certain assurances regarding ERISA and Section 4975 of the Code.

**Ratings** ..... Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the applicable Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Governing Law** ..... English law.

See Condition 17.1 (*Governing Law*).

<b>Listing</b> .....	Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Regulated Market. This Base Prospectus and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the Regulated Market in respect of Notes having a denomination of at least €100,000 (or its equivalent in any other currency as at the date of issue of the Notes) during a period of 12 months from the date of this Base Prospectus.
<b>Selling Restrictions</b> .....	The offering and sale of Notes is subject to applicable laws and regulation, including, without limitation, those of the United States, Canada, the European Economic Area, the United Kingdom, Switzerland, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Kuwait, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Japan, Hong Kong, South Korea, Singapore, Malaysia, Indonesia, Brunei and the People's Republic of China. See " <i>Subscription and Sale</i> ".
<b>Risk Factors</b> .....	Investing in the Notes involves a high degree of risk.  See " <i>Risk Factors</i> ".

### **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used by the Company for general corporate purposes or for any other purpose specified in the Final Terms for a Series of Notes.



## CAPITALISATION

The table below sets forth the Company's cash and cash equivalents and capitalisation as at 31 December 2018. Prospective investors should read this table in conjunction with “*Selected Consolidated Financial Information*”, “*Management's Discussion and Analysis of Results of Operations and Financial Condition*” and the Financial Statements.

	<u>2018</u>	<u>2018</u>
	SAR	U.S.\$
	(in millions)	
<b>Cash and cash equivalents<sup>(1)</sup></b>	<b><u>183,152</u></b>	<b><u>48,841</u></b>
<b>Current borrowings</b>	<b>29,989</b>	<b>7,997</b>
<b>Non-current borrowings</b>	<b>71,329</b>	<b>19,021</b>
<b>Total equity:</b>		
Share capital	60,000	16,000
Additional paid-in capital	26,981	7,195
Retained earnings		
Unappropriated	920,625	245,500
Appropriated	6,000	1,600
Other reserves	3,176	847
	<u>1,016,782</u>	<u>271,142</u>
Non-controlling interests	11,653	3,107
<b>Total equity<sup>(1)</sup></b>	<b><u>1,028,435</u></b>	<b><u>274,249</u></b>
<b>Total capitalisation<sup>(1)</sup></b>	<b><u>1,129,753</u></b>	<b><u>301,267</u></b>

(1) On 14 March 2019, the Company's Board approved a dividend to the Government of SAR 123.75 billion (\$33.0 billion).

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The financial information of the Company set forth below as at and for the years ended 31 December 2016, 2017 and 2018 has been derived from, should be read in conjunction with, and is qualified in its entirety by the Financial Statements contained elsewhere in this Base Prospectus.

Prospective investors should read the selected financial information in conjunction with the information presented under the headings “Risk Factors” and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” and the Financial Statements and other financial data included elsewhere in this Base Prospectus.

### Consolidated Statement of Income Data

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
Revenue <sup>(1)</sup> . . . . .	504,596	835,983 <sup>(2)</sup>	1,182,137	315,236
Other income related to sales <sup>(3)</sup> . . . . .	—	150,176	152,641	40,704
<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>
Production royalties and excise and other taxes <sup>(1)</sup> . . . . .	—	(136,393) <sup>(2)</sup>	(208,505)	(55,601)
Purchases . . . . .	(53,231)	(120,398) <sup>(4)</sup>	(188,937)	(50,383)
Producing and manufacturing . . . . .	(48,369)	(64,045) <sup>(4)</sup>	(56,202)	(14,987)
Selling, administrative and general . . . . .	(37,051)	(29,606) <sup>(4)</sup>	(31,250)	(8,333)
Exploration . . . . .	(11,087)	(13,725)	(7,928)	(2,114)
Research and development . . . . .	(1,897)	(1,902)	(2,217)	(591)
Depreciation and amortisation . . . . .	(33,615)	(36,894)	(41,334)	(11,023)
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>
Operating income . . . . .	305,700	582,915	798,405	212,908
Share of results from joint ventures and associates . . . . .	(979)	(956)	(1,415)	(377)
Finance and other income . . . . .	1,609	1,569	3,865	1,030
Finance costs . . . . .	(1,354)	(2,090)	(2,959)	(789)
Income before income taxes . . . . .	304,976	581,438	797,896	212,772
Income taxes <sup>(6)</sup> . . . . .	(255,255)	(296,819)	(381,378)	(101,701)
<b>Net income</b> . . . . .	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>
<b>Net income attributable to:</b>				
Government’s equity . . . . .	48,349	283,198	416,196	110,985
Non-controlling interests . . . . .	1,372	1,421	322	86
	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>

(1) Prior to 2017, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017, 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 “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company’s Results of Operations and Financial Condition—Fiscal Regime Changes—Royalties” and “Business—Relationship with the Kingdom—The Concession”.

(2) The Company adopted IFRS 15 effective for annual reporting periods beginning on or after 1 January 2018. As a result, in the preparation of its 2018 Financial Statements, the Company reclassified certain 2017 results that appear in the 2017 comparative column of the 2018 Financial Statements. See page F-11.

(3) The Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. From 1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for revenues directly foregone as a result of the Company’s compliance with the Government mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company’s Results of Operations and Financial Condition—Fiscal Regime Changes—Price Equalisation”.

(4) Purchases, producing and manufacturing costs and selling, administrative and general costs for 2017 do not reflect 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 2017 comparative amounts reflected in the 2018 Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016. See page F-11.

(5) The Company recognised an impairment of SAR 13,646 million for the year ended 31 December 2016 related to a petrochemical refinery under construction and two existing domestic refineries.

(6) As at 1 January 2017, the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50%, except that effective from 1 January 2018, a 20% rate applies to Saudi Arabian Oil Company’s taxable income related to certain natural gas activities. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company’s Results of Operations and Financial Condition—Fiscal Regime Changes”.

## Consolidated Balance Sheet Data

	As at 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
Cash and cash equivalents .....	48,075	81,242	183,152 <sup>(1)</sup>	48,841 <sup>(1)</sup>
Property, plant and equipment .....	635,366	751,134	873,827	233,021
Total assets .....	940,703	1,102,553	1,346,168 <sup>(1)</sup>	358,978 <sup>(1)</sup>
Total borrowings .....	52,459	77,598	101,318	27,018
Total liabilities .....	205,357	276,239	317,733	84,729
Total equity .....	735,346	826,314	1,028,435 <sup>(1)</sup>	274,249 <sup>(1)</sup>

(1) On 14 March 2019, the Company's Board approved a dividend to the Government of SAR 123.75 billion (\$33.0 billion).

## Consolidated Statement of Cash Flows Data

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
<b>Net cash provided by/(used in):</b>				
Operating activities .....	109,411	333,607	453,701	120,987
Investing activities .....	(116,900)	(118,629)	(131,205)	(34,988)
Financing activities .....	2,021	(181,811)	(220,586)	(58,823)

## ALTERNATIVE PERFORMANCE MEASURES

*Prospective investors should read the below information in conjunction with the information presented under the headings “Risk Factors”, “Selected Consolidated Financial Information” and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” and the Financial Statements and other financial data included elsewhere in this Base Prospectus.*

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 meaning 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 measures are useful as an additional tool to help management and investors make informed decisions about the Company’s financial and operating performance or liquidity.

As at 1 January 2017, the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50%. Effective from 1 January 2018, a 20% tax rate applies to Saudi Arabian Oil Company’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 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of the Company’s compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. 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 measures for the years ended 31 December 2017 and 2018 are not directly comparable to such non-IFRS measures for the year ended 31 December 2016. See “*Management’s Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company’s Results of Operations and Financial Condition—Fiscal Regime Changes*”.

### 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 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
Net cash provided by operating activities <sup>(1)</sup> . . . . .	109,411	333,607	453,701	120,987
Capital expenditures . . . . .	(103,346)	(121,955)	(131,766)	(35,138)
<b>Free Cash Flow . . . . .</b>	<b>6,065</b>	<b>211,652</b>	<b>321,935</b>	<b>85,849</b>

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

## 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 for the years ended 31 December 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
(in millions, except percentages)				
Current borrowings	8,982	8,906	29,989	7,997
Non-current borrowings	43,477	68,692	71,329	19,021
<b>Total borrowings</b>	<b>52,459</b>	<b>77,598</b>	<b>101,318</b>	<b>27,018</b>
Cash and cash equivalents	(48,075)	(81,242)	(183,152)	(48,841)
<b>Net debt/(cash)</b>	<b>4,384</b>	<b>(3,644)</b>	<b>(81,834)</b>	<b>(21,823)</b>
Net debt/(cash)	4,384	(3,644)	(81,834)	(21,823)
Total equity	735,346	826,314	1,028,435	274,249
<b>Total capital</b>	<b>739,730</b>	<b>822,670</b>	<b>946,601</b>	<b>252,426</b>
<b>Gearing</b>	<b>0.6%</b>	<b>(0.4)%</b>	<b>(8.6)%</b>	<b>(8.6)%</b>

## Return on Average Capital Employed

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 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
(in millions, except percentages)				
Net income	49,721	284,619	416,518	111,071
Finance costs, net of tax	203	1,045	1,480	395
<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>As at 1 January:</b>				
Current borrowings	6,934	8,982	8,906	2,375
Non-current borrowings	30,431	43,477	68,692	18,318
Total equity	698,446	735,346	826,314	220,350
Capital employed	735,811	787,805	903,912	241,043
<b>As at 31 December:</b>				
Current borrowings	8,982	8,906	29,989	7,997
Non-current borrowings	43,477	68,692	71,329	19,021
Total equity	735,346	826,314	1,028,435	274,249
Capital employed	787,805	903,912	1,129,753	301,267
<b>Average capital employed</b>	<b>761,808</b>	<b>845,859</b>	<b>1,016,833</b>	<b>271,155</b>
<b>ROACE</b>	<b>6.6%</b>	<b>33.8%</b>	<b>41.1%</b>	<b>41.1%</b>



## 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 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
Net income .....	49,721	284,619	416,518	111,071
Finance income .....	(833)	(1,179)	(2,840)	(757)
Finance costs .....	1,354	2,090	2,959	789
Income taxes .....	255,255	296,819	381,378	101,701
<b>EBIT .....</b>	<b>305,497</b>	<b>582,349</b>	<b>798,015</b>	<b>212,804</b>
Depreciation and amortisation .....	33,615	36,894	41,334	11,023
Impairments .....	13,646	281	—	—
<b>EBITDA .....</b>	<b>352,758</b>	<b>619,524</b>	<b>839,349</b>	<b>223,827</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

*The following management's discussion and analysis of the Company's results of operations and financial condition should be read in conjunction with the information presented under the heading "Selected Consolidated Financial Information" and the Financial Statements, included elsewhere in this Base Prospectus. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements". 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 under the heading "Risk Factors" and elsewhere in this Base Prospectus.*

### Overview

The Company is the world's largest integrated oil and gas company. In 2018, 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 2016 to 2018. As at 31 December 2017, the Company's proved liquids reserves were more than five times the combined proved liquids reserves of the Five Major IOCs. In addition, the Company's net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 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 upstream operations are based in the Kingdom and it also operates a global downstream business. Its primary business 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 for each of its business segments for each of the years ended December 31, 2016, 2017 and 2018, excluding inter-segment revenue.

	Year Ended 31 December								Increase	
	2016		2017		2018		2018		2016-2017	2017-2018
	SAR		SAR		SAR		U.S.\$			
	(in millions, except percentages)									
<b>Revenue and other income related to sales:</b>										
Upstream <sup>(1)</sup>	360,963	72%	603,252	61%	813,422	61%	216,913	61%	67%	35%
Downstream	142,550	28%	381,697	39%	520,027	39%	138,673	39%	168%	36%
Corporate	1,083	—%	1,210	—%	1,329	—%	354	—%	12%	10%
<b>Total<sup>(1)</sup></b>	<b>504,596</b>	<b>100%</b>	<b>986,159</b>	<b>100%</b>	<b>1,334,778</b>	<b>100%</b>	<b>355,940</b>	<b>100%</b>	<b>95%</b>	<b>35%</b>

(1) Prior to 2017, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017, 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. In 2016, the Company deducted from its revenue SAR 101.3 billion of royalties payable to the Government. See "—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes" and "Material Agreements—The Concession".

In addition, certain of the Company's downstream products sold in the Kingdom 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 2017, the downstream business incurred losses in its operations. As at 1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline, with equalisation compensation recorded as other income related to sales. Notwithstanding this equalisation compensation, the Company expects that its upstream business will continue to constitute a substantial majority of its net income.

However, the Company believes that diversifying its operations and capturing value across the hydrocarbon chain will expand its sources of earnings and reduce exposure to the volatility of crude oil prices. Accordingly, the Company is focussed on increasing the strategic integration of its upstream and downstream businesses, creating an integrated global downstream refining and chemicals business and enhancing its domestic and global marketing businesses. 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. In addition to its recent expansions of its downstream operations, the Company expects to complete the acquisition of an approximately 70% equity interest in SABIC by early 2020. As a result, the Company expects that the downstream segment will constitute a larger component of the Company's business in the future. See "*Factors Affecting the Company's Results of Operations and Financial Condition—Investments and Acquisitions in Expansion of Downstream Segment*". At the same time, the Company intends to maintain its position as the world's leading crude oil producer by production volume to supply its customers, including its growing downstream operations, and expects the upstream segment to continue to be the primary contributor to the Company's total revenues, net income and cash flow.

### **Factors Affecting the Company's Results of Operations and Financial Condition**

The following is a discussion of the most significant factors that have affected, or are expected to affect, the Company's results of operations and financial condition.

#### ***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 2016, 2017 and 2018, respectively. 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-2014 and early 2016, with Brent prices declining from a monthly average of \$112.0 per barrel in June 2014 to a monthly average of \$31.9 per barrel in January 2016. Since January 2016, Brent prices fluctuated from a monthly average low of \$31.9 per barrel in January 2016 to a monthly average high of \$80.6 per barrel in October 2018. Most recently, Brent prices fell to a monthly average of \$57.7 in December 2018 and subsequently increased, to a monthly average of \$64.4 in February 2019. See "*Industry Overview—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 36% of global refined product demand in 2018 and is expected to account for approximately 39% of global refined product demand in 2030 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 and is represented at OPEC meetings by the Minister of MEIM, who is also the Chairman of the Company's Board of Directors (see "*Business—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 "*Risk Factors Relating to the Company's Industry and Regulatory Environment—Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause the Company to incur significant costs or invest significant additional capital*");
- changes to environmental or other regulations or laws applicable to crude oil and related products or the energy industry (see "*Risk Factors Relating to the Company's Industry and Regulatory Environment—The*");

*Company's operations are subject to extensive 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/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.

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 *"Material Agreements—The Concession"*. Due to this requirement, the Company's downstream product mix includes a high proportion of low margin refined products, such as fuel oil, in order 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 Aramco Trading Company, 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.

### ***Upstream Liquids 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 *"Business—Operating Segments—Upstream—Crude Oil and Condensate—Sales and Marketing"*.

In 2018, 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 2016, 2017 and 2018, customers in Asia, including the Company's affiliated refineries located in Asia, purchased 69%, 71% and 71%, respectively, of the Company's crude exports.

The following table highlights the destinations of the Company's crude oil deliveries for each of the years ended 31 December 2016, 2017 and 2018.

	Year Ended 31 December		
	2016	2017	2018
	(in thousand barrels per day)		
<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>

(1) Includes condensate blended with crude oil of 116 mbpd, 121 mbpd and 125 mbpd for the year ended 31 December 2016, 2017 and 2018, respectively.

(2) Primarily accounts for differences in volumes measured upon loading and unloading of crude oil shipments.

(3) Production does not include the Kingdom of Bahrain's entitlement to volumes produced from Abu Sa'fah, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016, 2017 and 2018, respectively.

### *Upstream Gas Sales*

By law, the Company is the exclusive supplier of natural gas in the Kingdom and all natural gas produced by the Company is sold in-Kingdom. From 2003 to 2018, 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 3.7% annually from 9.1 billion cubic feet per day in 2017 to 14.6 billion cubic feet per day in 2030. 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 gas demand through either domestic production or imports. Effective 27 March 2018, the Government implemented a mechanism under which regulations passed by the Council of Ministers empower MEIM, 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 "*Fiscal Regime Changes*".

### *In-Kingdom Downstream Product Sales*

The Company's downstream products sold to the domestic marketplace 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 2017, the downstream business performed at an overall net loss. As at



1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline, with equalisation compensation recorded as other income related to sales. See “—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.

### ***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 2016, 2017 and 2018, 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 30,971 million in 2016, SAR 35,569 million in 2017 and SAR 32,677 million (\$8,714 million) in 2018. 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, including the PRefChem integrated refinery and petrochemicals complex in Johor, Malaysia which is expected to commence operations in 2019. 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 intends to continue to expand its downstream business, including through acquisitions, affiliates and international investments.

### ***Completion of Motiva Transaction***

From 2002 until 1 May 2017, Motiva was a joint venture between the Company and affiliates of Shell. On 1 May 2017, the Company completed a transaction to separate the assets, liabilities and businesses of its former Motiva joint venture with Shell and transferred assets and liabilities retained by the Company to its wholly owned subsidiary (Motiva), which 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 2017 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 2017 Financial Statements and Note 31(c)(ii) to the 2018 Financial Statements. Consolidation of Motiva significantly impacted the Company’s results of operations as at and for the year ended 31 December 2017, particularly resulting in:

- an increase of the Company’s revenue, purchases, producing and manufacturing costs, depreciation and amortisation, finance costs, non-current borrowings, trade and other payables, deferred income tax liabilities and property, plant and equipment; and
- a decrease of the Company’s share of results from joint ventures and associates and investment in joint ventures and associates.

### ***Expected Purchase of Equity Interest in SABIC***

On 27 March 2019, the Company announced it had 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 ethylene, ethylene glycol, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. The Company intends to fund its investment in SABIC from a combination of cash on hand and seller financing in the form of promissory notes. The Company currently intends to repay the promissory notes in a phased manner through cash from operations, external debt financing or a combination thereof. Following the proposed acquisition, SABIC will remain a listed company on Tadawul. Closing of the acquisition is subject to customary closing conditions and is currently expected to occur in 2020.

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 "*Overview—Overview of the Company—Proposed Acquisition of Equity Interest in SABIC*".

The completion of the acquisition is expected to result in the Company consolidating SABIC into its financial statements from 2020 and therefore will have an impact on the Company's financial condition and results of operations as at and for the year ended 31 December 2020 compared to prior periods.

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

Effective 1 January 2017, the Government 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 2017, the income tax rate applicable to Saudi Arabian Oil Company decreased from 85% to 50%. In addition, effective from 1 January 2018, 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.
- ***Royalties.*** Prior to 1 January 2017, 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 2017, royalties are payable on crude oil and condensate, natural gas, ethane and NGLs and are based on their production value. See "*Material Agreements—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".

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 marginal rate of 20% applied to Brent prices up to \$70 per barrel, increasing to 40% applied to Brent prices above \$70 per barrel and 50% applied to Brent prices above \$100 per barrel. Pursuant to MEIM's authority under the Concession, on 25 February 2018, MEIM exempted Saudi Arabian Oil Company from royalties on condensate production for five years from 1 January 2018.

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 MEIM. As at the date of the Base 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.

As a result of the changes in royalties applicable to the Company, revenue for 2017 and 2018 is not directly comparable to prior years.

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 2016 and held on the balance sheet as inventory as at 31 December 2016 were not subject to royalties in 2016 as those volumes were not sold under the prior sales-based royalty regime. Royalties of SAR 5.5 billion (\$1.5 billion) on these volumes were expensed in 2017 and paid in 2018.

- ***Price Equalisation.*** Pursuant to the Concession, the Company possesses the exclusive right to sell crude oil and refined products in the Kingdom. As such, 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 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of the Company's compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. 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.

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 MEIM, which allocates volumes for sales of natural gas and NGLs 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 27 March 2018, the Council of Ministers empowered MEIM, in agreement with the Ministry of Finance, to specify the minimum price due to those licensed to engage in gas investment for the sale of natural gas, ethane and NGLs in order to provide such licencees making gas investments an opportunity to realise a suitable rate of return for these products in the Kingdom. The Council of Ministers also decided that the domestic prices for natural gas, ethane and NGLs (excluding any Government fees or value-added tax) shall not be lower than this minimum price. If domestic prices are higher than the minimum price, licencees shall pay the difference to the Government. Subsequently, MEIM in agreement with the Ministry of Finance issued a ministerial decision setting such minimum 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. See *"Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—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 2017, 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 1980s to 2016 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 2016, 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 2017, 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 2017 and 2018 was SAR 22.4 billion and SAR 32.7 billion, respectively.

Pursuant to certain governmental resolutions as further described in *"Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—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 “*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Government Guarantee*”.

- *Treatment of certain historic receivables.* In 2016, 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 2016. As part of the fiscal regime changes, the Company expects future settlements of receivables to be settled pursuant to the Government guarantee. See “—*Government guarantee*”.

### ***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.

## **Components of Results of Operations**

### ***Revenue***

Revenue primarily consists of sales of crude oil, natural gas, refined products and petrochemicals products. Revenue also includes services provided to third parties, joint operations, joint ventures, associates and government agencies, such as the operation and maintenance of facilities for third parties. Prior to 2017, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017, 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 “—*Fiscal Regime Changes—Royalties*”.

In 2018, the Company delivered Arabian crude oil to customers located in 37 countries. However, for accounting purposes, the Company records its revenue by geographical area based on the location of the entity that generated the revenue. The Company sells crude oil, gas, refined products and petrochemical products under different sales incoterms. The Company’s sales are primarily made on a free on board basis at the point of shipment, pursuant to which the buyer assumes all costs and liabilities once the goods are placed onto a ship for delivery. A smaller portion of the Company’s sales are made on a free in pipe basis, pursuant to which the buyer assumes all costs and liabilities once the product passes into the buyer’s receiving pipeline system. The balance of the Company’s sales is made on a cost, insurance and freight basis, pursuant to which the seller assumes all costs and liabilities until the goods are received by the buyer, or another sales incoterm. As the Company produces all its crude oil in the Kingdom and the sales are recorded by an entity located in the Kingdom, free on board export sales of crude oil are recorded as in-Kingdom revenue for segment reporting in the Company’s financial statements.

### ***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 “—*Fiscal Regime Changes—Price Equalisation*”.

For the years ended 31 December 2017 and 2018, 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 2016 as the price equalisation mechanism introduced by the Government was effective from 1 January 2017.

### ***Production Royalties and Excise and Other Taxes***

Production royalties and excise and other taxes consist of the royalties attributable to the production of hydrocarbons. Prior to 2017, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017, royalties are accounted for as an expense, rather than a deduction from revenue. Excise and other taxes consist of amounts paid by Motiva based on its operations in the United States.



## ***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 Aramco Trading Company's procurement of refined products and chemicals as part of its trading operations and from 1 May 2017, purchases by Motiva under its buying and selling arrangements and for its trading operations. The Company expects that, once 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.

## ***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.

## ***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 engages in a range of corporate citizenship projects and initiatives outside the Company's core business to support the communities and environment in which it operates. The Company initiates some of these projects and initiatives and others are undertaken in coordination with, and at the direction of, the Government. Government-directed projects and initiatives have generally been of national importance to the Kingdom and support the Company's long-term commercial interests. The Government previously compensated the Company for its efforts relating to such activities by either allowing the Company to reduce its taxable income by the amount of costs incurred or directly reimbursing the Company through a tax credit. 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. See "*Business—Corporate Citizenship*".

Costs related to Company-initiated projects and initiatives are expensed as incurred and reflected in selling, administrative and general expenses. Costs related to Government-directed projects and initiatives are treated in different ways by the Company. For certain projects directed by the Government, the Government provides a ministerial decree from the relevant Government ministry which allows the Company to credit its costs related to these projects against the Company's tax liability. For example, certain major infrastructure projects undertaken at the direction of the Government for which the Government reimburses the Company's costs in full are not reflected in the Company's financial statements because they have neither a positive nor negative impact on the Company's financial condition or results of operations. These projects include the construction of the multi-purpose stadium located at King Abdullah Sports City near Jeddah, the construction of the Jazan Complex Terminal and the construction of the King Salman Energy Park (SPARK). See "*Related Party Transactions—Other Transactions*".

Costs related to other Government-directed projects are primarily expensed as incurred, deductible for tax purposes and reflected in selling, administrative and general expenses. The only such projects currently impacting the Company's Financial Statements are the operating costs related to KAUST and KAPSARC, the capital costs for which were primarily incurred prior to 2017. See "*Business—Corporate Citizenship*".



The Company expects to continue to engage in a range of corporate citizenship projects and initiatives in the future.

### ***Exploration***

Exploration expenses consist of the costs for the evaluation of subsurface geological areas for hydrocarbon resources, including geological and geophysical surveys, and write-offs related to unsuccessful exploratory wells.

### ***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.

### ***Depreciation and Amortisation***

Depreciation is attributable to property, plant and equipment. Amortisation is attributable to capitalised costs (primarily drilling costs), which are intangible assets and thus amortised rather than depreciated.

### ***Impairments***

Impairments are recognised when events or changes in circumstances indicate that the carrying amount of certain assets on the Company's balance sheet may not be recoverable, which occurs when the assets' carrying value is greater than the discounted future cash flows the asset is expected to generate over its remaining useful life.

### ***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 2017, 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 led to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017 instead of being accounted for using the equity method as in prior periods. For further information, see "*Summary of Significant Accounting Policies—Principles of Consolidation and Equity Accounting—Joint Arrangements and Associates*".

### ***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.

### ***Finance 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.

## Consolidated Results of Operations for the Years ended 31 December 2016, 2017 and 2018

The following table sets forth the Company's consolidated statement of income for the years ended 31 December 2016, 2017 and 2018:

	Year Ended 31 December				Increase/(Decrease)	
	2016	2017	2018	2018	2016-2017	2017-2018
	SAR	SAR	SAR	U.S.\$		
(in millions, except percentages)						
Revenue <sup>(1)</sup> . . . . .	504,596	835,983 <sup>(2)</sup>	1,182,137	315,236	66%	41%
Other income related to sales <sup>(3)</sup> . . . . .	—	150,176	152,641	40,704	—	2%
<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>95%</b>	<b>35%</b>
Production royalties and excise and other taxes <sup>(1)</sup> . . . . .	—	(136,393) <sup>(2)</sup>	(208,505)	(55,601)	—	53%
Purchases . . . . .	(53,231)	(120,398) <sup>(4)</sup>	(188,937)	(50,383)	126%	57%
Producing and manufacturing . . . . .	(48,369)	(64,045) <sup>(4)</sup>	(56,202)	(14,987)	32%	(12)%
Selling, administrative and general . . . . .	(37,051)	(29,606) <sup>(4)</sup>	(31,250)	(8,333)	(20)%	6%
Exploration . . . . .	(11,087)	(13,725)	(7,928)	(2,114)	24%	(42)%
Research and development . . . . .	(1,897)	(1,902)	(2,217)	(591)	0%	17%
Depreciation and amortisation . . . . .	(33,615)	(36,894)	(41,334)	(11,023)	10%	12%
Impairments <sup>(5)</sup> . . . . .	(13,646)	(281)	—	—	(98)%	(100)%
<b>Operating costs</b> . . . . .	<b>(198,896)</b>	<b>(403,244)<sup>(2)</sup></b>	<b>(536,373)</b>	<b>(143,032)</b>	<b>103%</b>	<b>33%</b>
Operating income . . . . .	305,700	582,915	798,405	212,908	91%	37%
Share of results from joint ventures and associates . . . . .	(979)	(956)	(1,415)	(377)	(2)%	48%
Finance and other income . . . . .	1,609	1,569	3,865	1,030	(2)%	146%
Finance costs . . . . .	(1,354)	(2,090)	(2,959)	(789)	54%	42%
Income before income taxes . . . . .	304,976	581,438	797,896	212,772	91%	37%
Income taxes <sup>(6)</sup> . . . . .	(255,255)	(296,819)	(381,378)	(101,701)	16%	28%
<b>Net income</b> . . . . .	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>472%</b>	<b>46%</b>
<b>Net income attributable to:</b>						
Government's equity . . . . .	48,349	283,198	416,196	110,985	486%	47%
Non-controlling interests . . . . .	1,372	1,421	322	86	4%	(77)%
	<b>49,721</b>	<b>284,619</b>	<b>416,518</b>	<b>111,071</b>	<b>472%</b>	<b>46%</b>

(1) Prior to 2017, royalties payable to the Government were accounted for as a deduction from revenue. With effect from 1 January 2017, 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 “—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes” and “Business—Relationship with the Kingdom—The Concession”.

(2) The Company adopted IFRS 15 effective for annual reporting periods beginning on or after 1 January 2018. As a result, in the preparation of its 2018 Financial Statements, the Company reclassified certain 2017 results that appear in the 2017 comparative column of the 2018 Financial Statements. See page F-11.

(3) The Company sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. From 1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for revenues directly foregone as a result of the Company's compliance with the Government mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. See “Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes—Price Equalisation”.

(4) Purchases, producing and manufacturing costs and selling, administrative and general costs for 2017 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 2017 comparative amounts reflected in the 2018 Financial Statements. The Company estimates that a similar reclassification of producing and manufacturing costs to purchases would have been made for 2016. See page F-11.

(5) The Company recognised an impairment of SAR 13,646 million for the year ended 31 December 2016 related to a petrochemical refinery under construction and two existing domestic refineries.

(6) As at 1 January 2017, the income tax rate applicable to Saudi Arabian Oil Company was reduced from 85% to 50%, except that effective from 1 January 2018, a 20% tax rate applies to Saudi Arabian Oil Company's taxable income related to certain natural gas activities. See “—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes”.

## ***Revenue and Other Income Related to Sales***

For the years ended 31 December 2018 and 2017, the Company's revenue and other income related to sales was SAR 1,334.8 billion (\$355.9 billion) and SAR 986.2 billion, respectively. This 35% increase was primarily attributable to an increase in the average realised price per barrel of crude oil to \$70.02 from \$52.72 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 2018 from 10.1 million barrels per day in 2017.

Other income related to sales in 2018 was substantially unchanged from 2017 primarily due to an increase in the average regulated prices of crude oil, kerosene, diesel, heavy fuel oil and gasoline in the Kingdom commensurate with the increase in the equalisation price for such products, partially offset by lower volumes of refined products delivered in the Kingdom. This led to the Company recording other income related to sales of SAR 152.6 billion (\$40.7 billion) for the year ended 31 December 2018. See “—*Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*”.

For the years ended 31 December 2017 and 2016, the Company's revenue and other income related to sales was SAR 986.2 billion and SAR 504.6 billion, respectively. This 95% increase in revenue was primarily attributable to an increase in average realised price per barrel of crude oil to \$52.7 from \$40.7 as well as the price equalisation mechanism introduced by the Government effective from 1 January 2017, resulting in other income related to sales of SAR 150.2 billion for the year ended 31 December 2017. The volume of crude oil delivered by the Company decreased to 10.1 million barrels per day in 2017 from 10.6 million barrels per day in 2016. Also contributing to the increase in revenue and other income related to sales were the following:

- revenue from international sales of crude oil increased to SAR 526.3 billion from SAR 431.7 billion, or by 22%, for the years ended 31 December 2017 and 2016, respectively, despite a decrease in the total volume of international sales of crude oil from 2016 to 2017 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 2017 as well as due to the consolidation of Motiva's results of operations into the Company's financial statements from 1 May 2017 with export sales of crude oil to Motiva eliminated in consolidation from that date; and
- revenue from export sales of refined products increased to SAR 218.3 billion from SAR 103.1 billion, or by 112%, for the years ended 31 December 2017 and 2016, respectively.

In addition, revenue and other income related to sales in 2017 increased from 2016 because from 1 January 2017 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 2016 as the price equalisation mechanism introduced by the Government was effective from 1 January 2017. In 2017, the Company recorded other income related to sales of SAR 150.2 billion. See “—*Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*”.

## **Upstream**

For the years ended 31 December 2018 and 2017, the upstream segment's external revenue was SAR 776.2 billion (\$207.0 billion) and SAR 574.1 billion, respectively. This 35% increase was primarily due to an increase in average realised sales price per barrel of crude oil to \$70.1 from \$52.8, or 33%. For the years ended 31 December 2018 and 2017, the upstream segment's other income related to sales was SAR 37.2 billion (\$9.9 billion) and SAR 29.1 billion, respectively. This 28% increase was primarily due to an increase in the reference equalisation price for crude oil. For the years ended 31 December 2017 and 2016, the upstream segment's external revenue was SAR 574.1 billion and SAR 361.0 billion, respectively. This 59% increase was primarily due to an increase in average realised sales price per barrel of crude oil to \$52.8 from \$40.7, or 30%, and partially offset by a decrease in the total volume of crude oil exports from 2016 to 2017 by approximately 312,000 barrels per day, or 4%, and the change in accounting for royalties as a result of the fiscal regime changes. The Company did not record any other income related to sales for the year ended 31 December 2016. See “—*Revenue and Other Income Related to Sales*” and “—*Production Royalties and Excise and Other Taxes*”.

## **Downstream**

For the years ended 31 December 2018 and 2017, the downstream segment's external revenue was SAR 404.6 billion (\$107.9 billion) and SAR 260.6 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 2018 and the absence of the impact from Hurricane Harvey, which negatively affected the downstream segment's results in 2017. For the years ended 31 December 2017 and 2016, the downstream segment's revenue was SAR 260.6 billion and SAR 142.6 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 2017 and an increase in average realised prices for downstream products. For the years ended 31 December 2018 and 2017, the downstream segment's other income related to sales was SAR 115.5 billion (\$30.8 billion) and SAR 121.1 billion, respectively. This 5% decrease was primarily due to a decrease in volumes of refined products sold in the Kingdom by 9%. The Company did not record any other income related to sales for the year ended 31 December 2016.

#### Corporate

For the years ended 31 December 2018, 2017 and 2016, the Corporate segment's external revenue was SAR 1,329 million (\$354 million), SAR 1,210 million and SAR 1,083 million, respectively. The corporate segment primarily supports the upstream segment's and downstream segment's activities and has limited external activities.

#### ***Production Royalties and Excise and Other Taxes***

For the years ended 31 December 2018 and 2017, the Company recorded production royalties and excise and other taxes of SAR 208.5 billion (\$55.6 billion) and SAR 136.4 billion, respectively. 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 2018, 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 2018. The Company did not record any production royalties and excise and other taxes as an expense item for the year ended 31 December 2016 as the new production-based royalty introduced by the Government was effective from 1 January 2017. In 2016, the Company deducted from its revenue SAR 101.3 billion of royalties payable to the Government. See “—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes” and “Business—Relationship with the Kingdom—The Concession”.

#### ***Purchases***

For the years ended 31 December 2018 and 2017, the Company made purchases of SAR 188.9 billion (\$50.4 billion) and SAR 120.4 billion, respectively. This 57% increase was primarily attributable to increased purchases of volumes of crude oil and refined products as well as an increase in the prevailing market prices for those products. Purchases by Aramco Trading Company increased to SAR 66.0 billion (\$17.6 billion) for the year ended 31 December 2018 from SAR 41.7 billion for the year ended 31 December 2017, 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 to 14% for the year ended 31 December 2018 from 12% for the year ended 31 December 2017.

The Company made purchases of SAR 120.4 billion and SAR 53.2 billion for the years ended 31 December 2017 and 2016, 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 2017, which accounted for SAR 48.6 billion of purchases by the Company. Purchases by Aramco Trading Company increased to SAR 41.7 billion for the year ended 31 December 2017 from SAR 30.2 billion for the year ended 31 December 2016, 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 to 12% for the year ended 31 December 2017 from 11% for the year ended 31 December 2016.

#### ***Producing and Manufacturing***

For the years ended 31 December 2018 and 2017, producing and manufacturing expenses were SAR 56.2 billion (\$15.0 billion) and SAR 64.0 billion, 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 to 4% for the year ended 31 December 2018 from 6% for the year ended 31 December 2017.

Producing and manufacturing expenses were SAR 64.0 billion and SAR 48.4 billion for the years ended 31 December 2017 and 2016, respectively. This 32% increase was primarily due to the consolidation of Motiva into the Company's financial statements from 1 May 2017.

### ***Selling, Administrative and General***

For the years ended 31 December 2018 and 2017, the Company incurred selling, administrative and general expenses of SAR 31.3 billion (\$8.3 billion) and SAR 29.6 billion, respectively.

The Company incurred selling, administrative and general expenses of SAR 29.6 billion and SAR 37.1 billion for the years ended 31 December 2017 and 2016, 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.

### ***Exploration***

For the years ended 31 December 2018 and 2017, exploration expenses decreased 42% to SAR 7.9 billion (\$2.1 billion) from SAR 13.7 billion, respectively. This decrease was primarily due to lower write-offs of dry-hole costs related to gas exploration activities in 2018.

For the years ended 31 December 2017 and 2016, the Company incurred exploration expenses of SAR 13.7 billion and SAR 11.1 billion, respectively. This 24% increase was primarily attributable to an increase in write-offs of dry-hole costs related to gas exploration activities.

### ***Research and Development***

For the years ended 31 December 2018 and 2017, the Company incurred research and development expenses of SAR 2,217 million (\$591 million) and SAR 1,902 million, respectively.

For the years ended 31 December 2017 and 2016, the Company incurred research and development expenses of SAR 1,902 million and SAR 1,897 million, respectively.

### ***Depreciation and Amortisation***

For the years ended 31 December 2018 and 2017, the Company recognised depreciation and amortisation expenses of SAR 41.3 billion (\$11.0 billion) and SAR 36.9 billion, respectively. This 12% increase was primarily attributable to an increase in capitalised costs related to upstream projects that were completed in 2018.

For the years ended 31 December 2017 and 2016, depreciation and amortisation expenses increased to SAR 36.9 billion from SAR 33.6 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 2017.

### ***Impairments***

The Company recognised an impairment of SAR 13.6 billion for the year ended 31 December 2016 primarily due to an assessment that the future recoverable amount of the refinery component of an under-construction petrochemical facility was less than the carrying value of that asset.

### ***Share of Results from Joint Ventures and Associates***

The Company had a loss of SAR 1,415 million (\$377 million) and SAR 956 million in its share results from joint ventures and associates for the years ended 31 December 2018 and 2017, respectively. The increase in loss was primarily due to lower earnings from FREP, partially offset by improved financial performance at Sadara and Petro Rabigh.

The loss in the Company's share of results from joint ventures and associates was SAR 956 million and SAR 979 million for the years ended 31 December 2017 and 2016, respectively. The decrease in loss was primarily due to improved financial performance at Sadara and Petro Rabigh, partially offset by lower earnings from Bahri and Motiva no longer being accounted using the equity method as in prior periods.

### ***Finance and Other Income***

For the years ended 31 December 2018 and 2017, the Company had finance and other income of SAR 3,865 million (\$1,030 million) and SAR 1,569 million, respectively. This increase was primarily attributable to an increase in interest income generated from time deposits and loans receivable.

For the years ended 31 December 2017 and 2016, the Company had finance and other income of SAR 1,569 million and SAR 1,609 million, respectively.



### **Finance Costs**

For the years ended 31 December 2018 and 2017, the Company incurred finance costs of SAR 2,959 million (\$789 million) and SAR 2,090 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 years ended 31 December 2017 and 2016, the Company incurred finance costs of SAR 2,090 million and SAR 1,354 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 2017 as well as finance costs related to the Sukuk Programme and increased borrowing costs on bank borrowings by SATORP and YASREF.

### **Income Taxes**

For the years ended 31 December 2018 and 2017, the Company incurred an income tax of SAR 381.4 billion (\$101.7 billion) and SAR 296.8 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 years ended 31 December 2017 and 2016, the Company incurred an income tax of SAR 296.8 billion and SAR 255.3 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.

### **Net Income**

For the years ended 31 December 2018 and 2017, the Company's net income was SAR 416.5 billion (\$111.1 billion) and SAR 284.6 billion, respectively. This 46% increase was primarily due to improved profitability of the upstream segment, which was partially offset by lower profitability of the downstream segment. The decreased profitability of the downstream segment during this period was due to pressure on downstream margins resulting from an increase of crude oil feedstock prices.

For the years ended 31 December 2017 and 2016, the Company's net income was SAR 284.6 billion and SAR 49.7 billion, respectively. This 472% increase was due primarily to the fiscal regime changes.

### **Liquidity and Capital Resources**

The following table sets forth the Company's cash flow for the years ended 31 December 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	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
Investing activities	(116,900)	(118,629)	(131,205)	(34,988)
Financing activities	2,021	(181,811)	(220,586)	(58,823)

(1) Includes settlement of income and other taxes in 2017 and 2018. See Note 23(a) (*Settlement Transactions*) to the 2018 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, and settlements with, the Government of royalties, income and other taxes and cash distributions.

The Company's future capital requirements will depend on many factors, including the capacity expansion of the MGS and expansion of its downstream operations.

### **Cash Flow Provided by Operating Activities**

The Company's cash flow is primarily generated from its operations. Net cash provided by operations for the year ended 31 December 2018 amounted to SAR 453.7 billion (\$121.0 billion) as compared to SAR 333.6 billion

for the year ended 31 December 2017 and SAR 109.4 billion for the year ended 31 December 2016. The 36% increase from 2017 to 2018 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 205% increase from 2016 to 2017 was primarily due to an increase in the average realised price of crude oil by 29%, the implementation of the price equalisation mechanism, as well as the positive impact from a lower income tax rate in connection with the fiscal regime changes that took effect from 1 January 2017. Cash provided by operating activities for the years ended 31 December 2018 and 2017 includes a settlement of income and tax and royalty obligations. See Note 23(a) (*Settlement Transactions*) to the 2018 Financial Statements and Note 23(a) (*Settlement Transactions*) to the 2017 Financial Statements.

### ***Cash Flow Used in Investing Activities***

Net cash flow used in investing activities amounted to SAR 131.2 billion (\$35.0 billion) for the year ended 31 December 2018 as compared to SAR 118.6 billion for the year ended 31 December 2017 and SAR 116.9 billion for the year ended 31 December 2016. The 11% increase from 2017 to 2018 was primarily due to an increase in capital expenditures. The 1% increase from 2016 to 2017 was primarily due to an increase in capital expenditures, partially offset by maturities of short term time deposits.

### ***Capital Expenditures***

The following table sets forth the Company's capital expenditures for each of its business segments for the years ended 31 December 2016, 2017 and 2018:

	Year Ended 31 December			
	2016	2017	2018	2018
	SAR	SAR	SAR	U.S.\$
	(in millions)			
Upstream <sup>(1)</sup> .....	68,205	82,508	96,768	25,805
Downstream .....	30,971	35,569	32,677	8,714
Corporate .....	4,170	3,878	2,321	619
<b>Total</b> .....	<b>103,346</b>	<b>121,955</b>	<b>131,766</b>	<b>35,138</b>

(1) Includes exploration capital expenditures of SAR 9,264 million, SAR 7,735 million and SAR 9,034 million (\$2,409 million) for the years ended 31 December 2016, 2017 and 2018, respectively, and development capital expenditures of SAR 38,667 million, SAR 38,643 million and SAR 38,944 million (\$10,385 million) for the years ended 31 December 2016, 2017 and 2018, respectively.

The Company's capital expenditures were SAR 131.8 billion (\$35.1 billion) for the year ended 31 December 2018, SAR 122.0 billion for the year ended 31 December 2017 and SAR 103.3 billion for the year ended 31 December 2016. The 8% increase from 2017 to 2018 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 18% increase from 2016 to 2017 was primarily due to ongoing capital projects at Jazan, upstream development projects to increase crude oil production at Khurais in 2018 and Berri by the end of 2022 and the drilling of crude oil development wells and natural gas development wells during 2017. The increase in other upstream capital expenditures from the year ended 31 December 2016 to the year ended 31 December 2017 primarily relates to the Fadhili gas plant to meet growing domestic demand for natural gas. 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 in the upstream segment 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 31 December 2018 was SAR 90.0 billion, which it intends to fund primarily through cash generated from operating activities. See "*Risk Factors—Risk Factors Relating to the Company—The Company's ability to achieve its strategic growth objectives depends on the successful delivery of current and future projects*".

### ***Cash Flow (Used in)/Provided by Financing Activities***

Net cash flow used in financing activities amounted to SAR 220.6 billion (\$58.8 billion) for the year ended 31 December 2018, as compared to net cash flow used in financing activities of SAR 181.8 billion for the year

ended 31 December 2017 and to net cash flow provided by financing activities of SAR 2.0 billion for the year ended 31 December 2016. The change in net cash flow used in financing activities from 2017 to 2018 was primarily due to an increase of SAR 29.7 billion (\$7.9 billion) in dividends and distributions made to the Government. The change in net cash flow from 2016 to 2017 was primarily due to SAR 187.8 billion in distributions made to the Government, including the settlement of an amount due from the Government of SAR 56.6 billion in 2017. See Note 23(a) to the 2017 Financial Statements.

#### *Dividends and Distributions*

On 14 March 2019, the Company's Board approved a dividend to the Government of SAR 123.8 billion (\$33.0 billion). In 2018, the Company's dividend payments to the Government totaled SAR 217.5 billion (\$58.0 billion). In 2017, the Company's dividend payments to the Government totaled SAR 187.8 billion. In 2016, the Company's dividend payments to the Government totaled SAR 11.3 billion.

#### *Liquidity*

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 its Sukuk Programme. Certain of the Company's subsidiaries also have entered into and have access to credit facilities, sukuk or other financing.

As at 31 December 2018, the Company had a total of SAR 95.6 billion of undrawn amounts from SAR 175.4 billion in total borrowing financing arrangements. Cash that may be temporarily available as surplus to the Company's immediate needs is carefully managed based on counterparty quality and investment guidelines to ensure it is secure and readily available to meet the Company's cash requirements.

#### *Revolving Credit Facilities*

On 26 March 2015, the Issuer entered into revolving credit facilities with various financial institutions for up to \$10 billion in aggregate commitments, which includes both conventional and *Shari'ah* compliant Murabaha facilities. The facilities provide for certain limits on the creation of liens on or other security interests in the assets of the Issuer, and on the sale, lease or transfer, of its assets to third parties. The total amounts of the five-year facilities are fully available through the end of the fifth year and, pursuant to the terms of the facility, the Issuer has exercised two one-year extension options under both facilities extending the five-year facilities to seven years. The facilities are available until one month before the maturity date of 26 March 2022. As at 31 December 2018, there was an unused balance of SAR 37.5 billion (\$10 billion) on the Issuer's revolving credit facilities.

#### *Sukuk Programme*

On 10 April 2017, SAR 11.25 billion (\$3 billion) Sukuk were issued under the Sukuk Programme. The Sukuk mature on 10 April 2024 and, subject to early redemption, the principal is payable in full upon the final redemption date. The Sukuk were issued by Saudi Aramco Sukuk Company, a Saudi joint stock company and an indirect subsidiary of the Issuer that was incorporated to act as issuer under the Sukuk Programme.

#### **Contractual Obligations**

The following table sets forth the Company's contractual obligations as at 31 December 2018:

	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>

(1) Maturities at contractual value of long-term borrowings and debentures, including interest payments due under such instruments.

(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 commitments and contingencies under guarantees issued by the Company in connection with financing arrangements at Sadara and Petro Rabigh.

In connection with Sadara, on 31 March 2013 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; (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 of the Company from its obligations thereunder. As at 31 December 2018, the outstanding amount guaranteed by the Company was SAR 23.8 billion (\$6.3 billion).

In connection with Petro Rabigh, in March 2019, 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. This guarantee will be terminated upon the project completion date. As at 31 December 2018, the full amount of financing was drawn.

As at 31 December 2018, the minimum lease payments for non-cancellable operating leases was SAR 35.6 billion (\$9.5 billion). See Note 24(b) to the 2018 Financial Statements included elsewhere in this Base Prospectus.

## **Quantitative and Qualitative Disclosure About Market Risk**

### ***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.

### ***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.

### ***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.

### ***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.

### ***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.

### ***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.

### **Summary of Significant Accounting Policies**

The Financial Statements were prepared in accordance with IFRS. Below is a summary of significant accounting policies applied by the Company in preparing the Financial Statements:

#### ***Principles of Consolidation and Equity Accounting***

##### ***Subsidiaries***

The 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 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 next acquisition date with any gains or losses arising from such re-measurement recognised in net income.

##### ***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.

##### **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.



## 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.

## 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.

## 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 2018 Financial Statements.



### *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:

Brands and trademarks . . . . .	10 to 15
Franchise / customer relationships . . . . .	5 to 10
Computer software . . . . .	3 to 5
Patents and intellectual property . . . . .	15

Amortisation is recorded in depreciation and amortisation in the Company's consolidated statement of income.

### *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 hydrocarbon 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 and/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.

### *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 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. This applies to the majority of the Company's fields. 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:

**Crude oil facilities:**

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

**Refinery and petrochemical facilities** . . . . . 5 to 40

**Gas & NGL facilities** . . . . . 2 to 30

**General service plant:**

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 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.

*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.

*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.

*Leases*

Agreements under which the Company 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 the Company are recorded at commencement as finance leases. Such leases are capitalised on the Company's 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 recognised 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 the Company is the lessor in a finance lease, the present value of the lease payments is recognised as a receivable. The interest element of the lease receivable is recognised in net income using the effective interest method.

### *Financial Assets*

#### 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 net income), 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.

#### 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.

#### 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.

#### 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.

#### 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.

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.

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.

*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.

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.

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.

#### **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.

#### **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.

#### ***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 2017, 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 2017, 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.



### *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 and/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.

### *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 and/or surplus materials and supplies. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### *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 2018 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 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 as at 31 December represents amounts to be settled through offset against tax payments

### *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.

### *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.

#### 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.

#### 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.

#### 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.

#### *Post-Employment Benefit Plans*

##### 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.

##### 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.

#### *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 2018 Financial Statements included elsewhere in this Base Prospectus.

### *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 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 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 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 2018 Financial Statements included elsewhere in this Base Prospectus.

### *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 1986. A change in the fixed exchange rate could impact the recorded revenue, expenses, assets and liabilities of the Company.

### *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 USD presented as supplementary information in the 2018 Financial Statements are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the relevant balance sheet dates.

#### *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 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.

#### *Other income related to sales*

The Government compensates the Company through price equalisation 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 other income related to sales in the year ended 31 December 2017, 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 2017 which were effective from 1 January 2017.

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 2018 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.

#### *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 marginal rate of 20% applied to Brent prices up to \$70 per barrel, increasing to 40% applied to Brent prices above \$70 per barrel and 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.

#### *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.

## **New or Amended Accounting Standards**

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 2018:

- IFRS 9, Financial Instruments; and
- IFRS 15, Revenue from Contracts with Customers.

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 2018 Financial Statements included elsewhere in this Base 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. The following IASB pronouncement that is endorsed in the Kingdom will become effective for future financial reporting periods, and have not been adopted early by the Company.

### ***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-to-use asset and a lease liability, and the subsequent amortisation of the right-to-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. The Company will apply IFRS 16 from its mandatory adoption date of 1 January 2019.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of SAR 35,565 million. Of these commitments, approximately SAR 1,894 million relate to short-term leases and SAR 134 million to low value leases and other items which will be recognised on a straight-line basis as expense in the consolidated statement of income. For the remaining lease commitments, the Company expects to recognise right-of-use assets and lease liabilities of approximately SAR 27,389 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) in its consolidated balance sheet at 1 January 2019. There will be no significant impact on the net assets as at 1 January 2019 is expected and net current assets will be SAR 5,992 million lower due to the presentation of a portion of the liability as a current liability.

The Company's activities as a lessor are not material and the Company does not expect any significant impact on its consolidated financial statements in connection with IFRS 16. The Company will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.



## 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—Industry and Other Information”. The forecast data is drawn from the Industry Consultant’s base case scenario which represents a continuation of industry drivers, trends and known policies as at the date of this Base 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.*

### 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 3.0% from 2017 to 2030, after growing at a CAGR of 3.2% from 2009 to 2017. Future growth is expected to be led primarily by non-OECD Asia Pacific, with an anticipated real GDP growth at a CAGR of 5.5% from 2017 to 2030. Global crude oil demand is expected to grow at a CAGR of 0.5% from 2017 to 2030. 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 liquids market reached equilibrium in 2017 after a period of oversupply.** Following a period of oversupply, liquids supply and demand reached equilibrium in 2017 as demand in 2016 grew at a faster rate than supply.
- **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 2017 to 2030, driven by an increase in demand in Africa, the Middle East and Asia Pacific. Between 2017 and 2030, global demand for ethylene is expected to grow at a CAGR of 3.6%, primarily due to an anticipated growth in demand from China and Southeast Asia.
- **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 3.7% from 2017 to 2030, primarily due to an increase in demand from the power generation and the refining and industrial sectors.

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

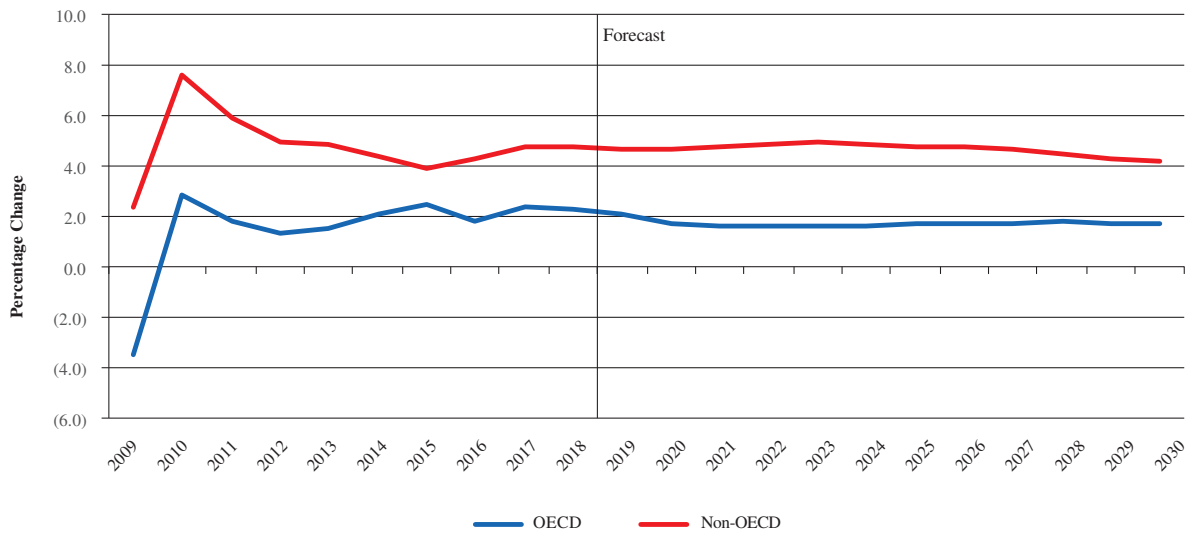
#### **GDP**

Real global GDP is a key driver of oil demand. From 2009 to 2017, real global GDP grew at a CAGR of 3.2%, and is expected to grow at a CAGR of 3.0% from 2017 to 2030.

In recent years, non-OECD countries have been the main drivers of real global GDP growth. From 2009 to 2017, the real GDP of non-OECD countries increased at a CAGR of 5.2%, while the real GDP of OECD countries increased at a CAGR of 2.0%. Non-OECD Asia Pacific accounted for a large portion of the growth within non-OECD countries, with a CAGR of 7.1% from 2009 to 2017.

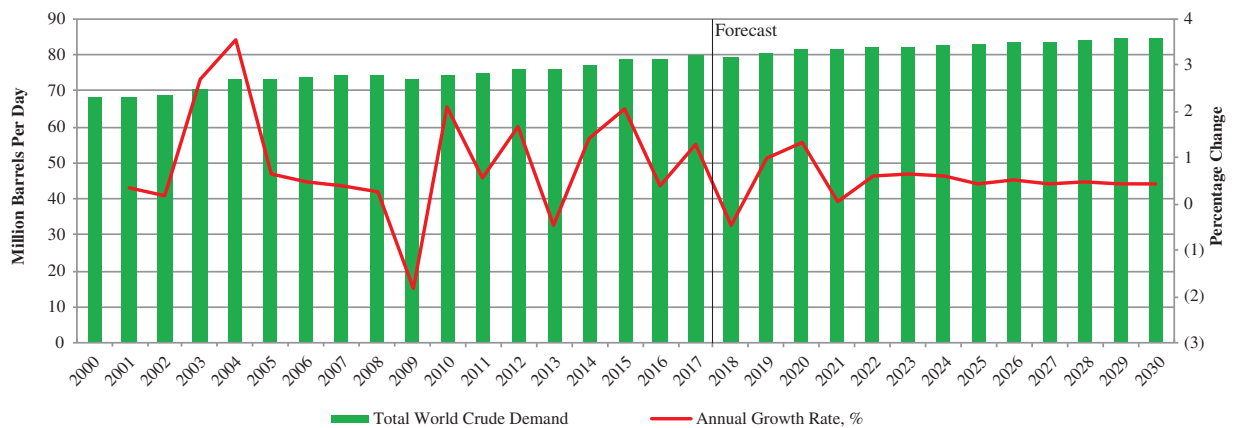
The real GDP of non-OECD countries, generally, and in Asia Pacific, specifically, is forecasted to grow at a CAGR of 4.6% and 5.5%, respectively, from 2017 to 2030, while the real GDP of OECD countries is expected to grow at a CAGR of 1.8% during that period. The anticipated growth in non-OECD Asia Pacific 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 4.7% from 2017 to 2030), a rising number of middle-class consumers and increased urbanisation (the population living in urban areas is projected to grow from 46% in 2018 to 53% in 2030).

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

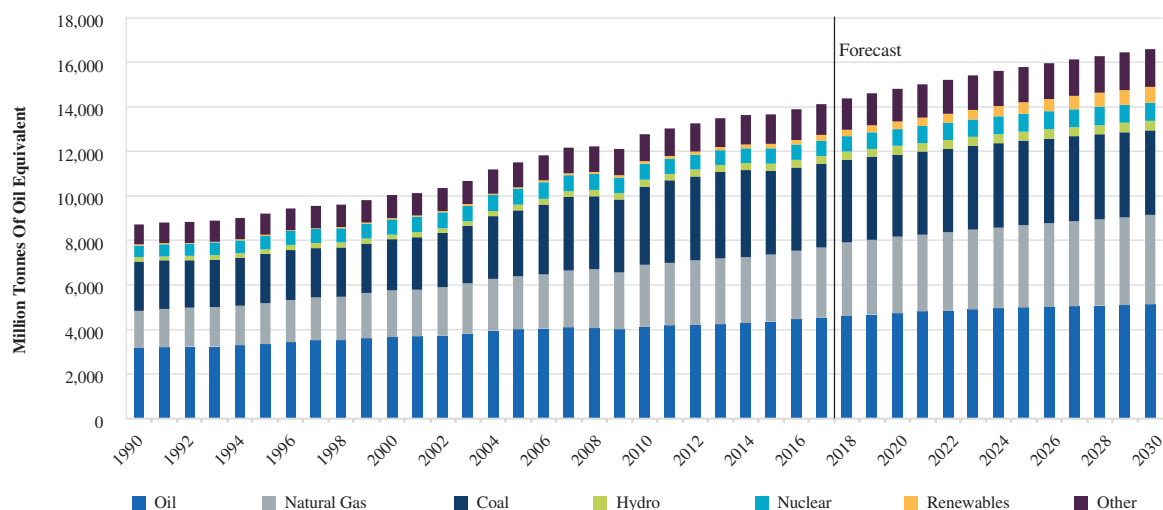


### Crude Oil Demand

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 oil and the electrification of vehicles. Global crude oil demand increased at a CAGR of 0.9% between 2000 and 2017 and is expected to grow at a CAGR of 0.5% from 2017 to 2030. The following chart illustrates global annual crude oil demand and growth rates from 2000 to 2017 and expected annual crude oil demand and growth rates from 2018 through 2030.



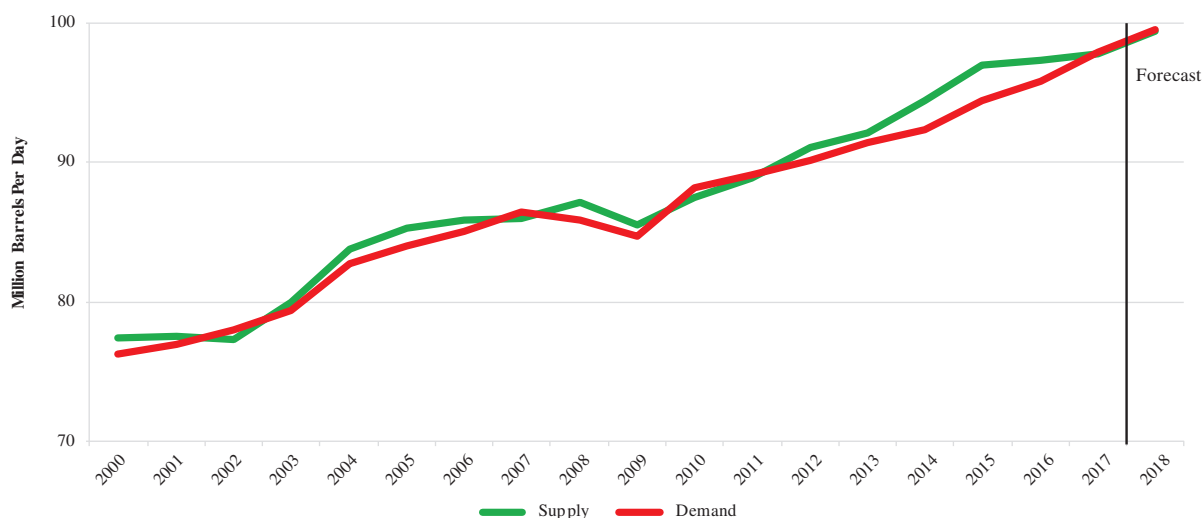
Demand for oil is influenced by its use for energy. Oil is the world's leading energy source, accounting for 32.1% of the global energy demand in 2017. Through 2030, oil is expected to remain the primary energy source despite anticipated increases in energy efficiency, increased use of natural gas and renewable energy sources, such as solar and wind power, and the introduction of new technologies, such as electric vehicles. In 2030, oil is expected to account for approximately 30.9% of total energy consumption. The following chart sets forth the sources of energy from 1990 to 2017 and expected global sources of energy from 2018 through 2030.



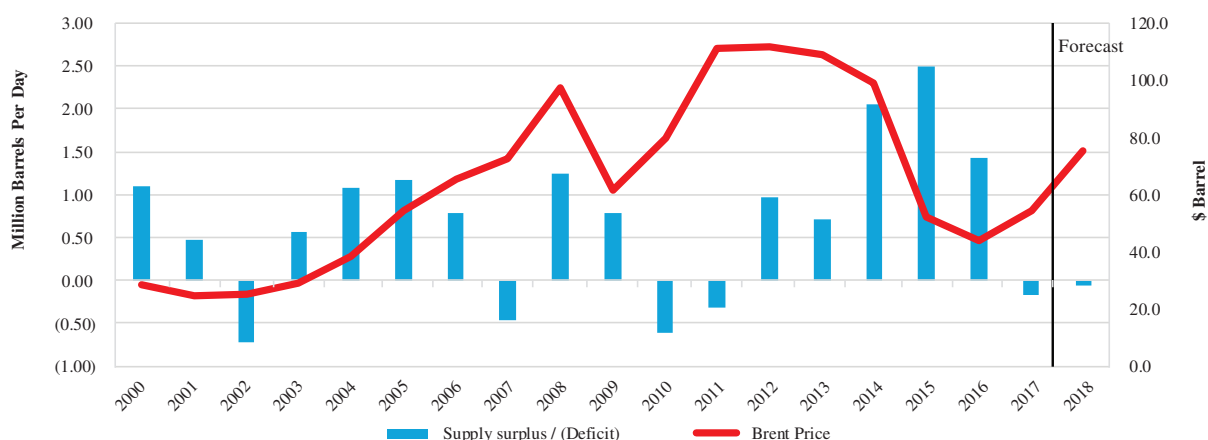
### Liquids Supply-Demand Balance

Liquids balance is as 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 3.4% and 4.5%, respectively, from 2009 to 2017, while liquids demand in OECD countries increased at an average rate of 0.4%. From 2017 to 2030, liquids demand in non-OECD countries, generally, and in non-OECD Asia Pacific specifically, is anticipated to grow at a CAGR of 1.8% and 2.2%, 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 markets, which have sizeable, yet stable, demand.

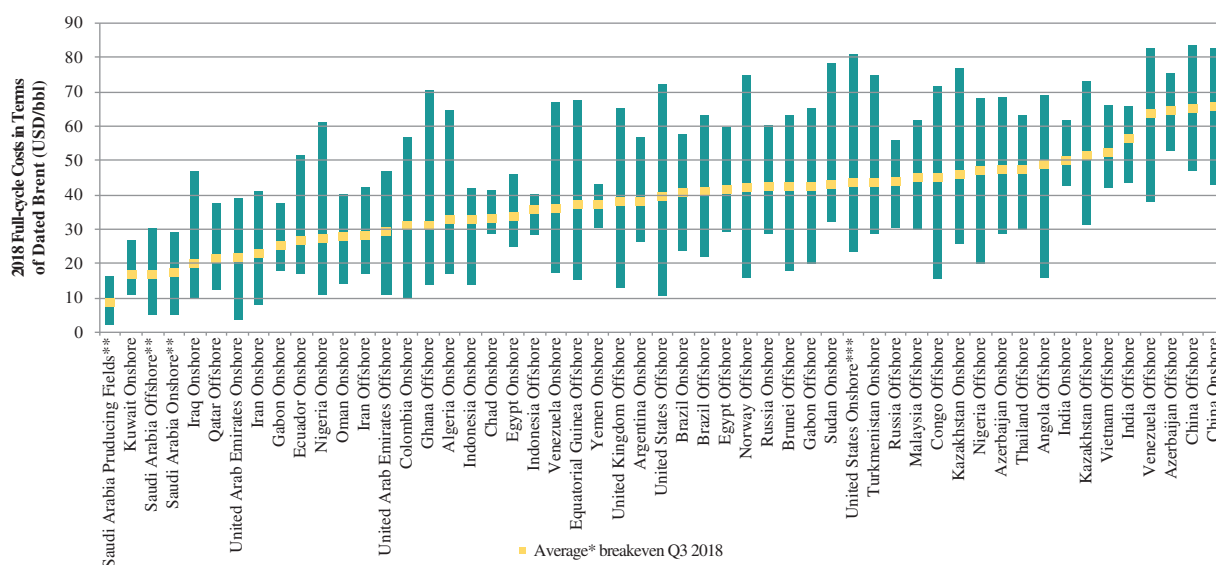
Any movement in supply and/or demand for liquids products affects the liquids balance and, correspondingly, crude oil prices and production decisions. The most significant recent imbalance was excess supply in liquids in the period between 2014 and 2016, which exerted downward pressure on oil prices. The following chart shows the liquids supply-demand dynamic from 2000 to 2018.



Liquids supply and demand growth rates both began to slow in 2016, with supply growth slowing to a greater degree than demand growth. The annual supply growth rates fell from 2.6% to 0.4% between 2015 and 2016, while the annual demand growth rates fell from 2.2% to 1.5% between 2015 and 2016. The slowdown in supply growth was a result of the market reaction to excess inventory and the corresponding steep fall in prices starting in 2014. In 2017, 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 crude oil price.



Additionally, with the reduction in oil prices from 2014 to 2016, producers began to reduce crude oil exploration and production capital expenditures. Consequently, global annual crude oil exploration and production capital expenditures fell from \$697 billion in 2014 to \$408 billion in 2018. The following chart sets forth post-tax breakeven costs for new oil projects at a 10% rate of return by country through 2030.



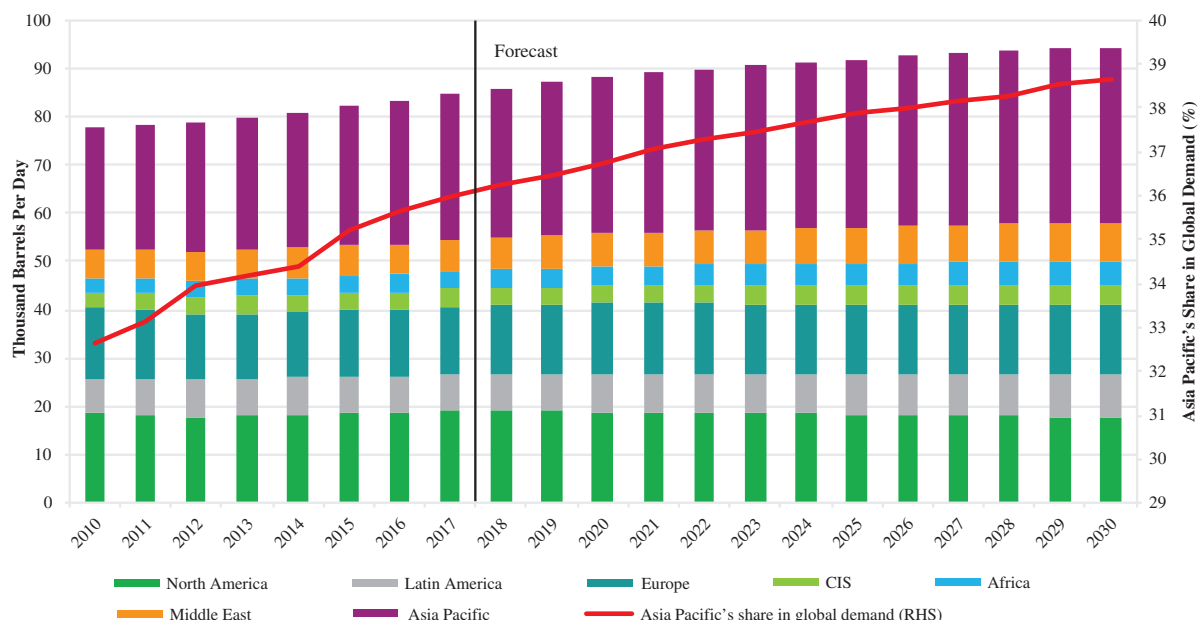
- (\*) Average is not a weighted or arithmetic average but a selection of what a typical new oil project in that country would cost in today's market. New oil projects selected by country from 2018-onwards.
- (\*\*) The breakeven price for producing fields in Saudi Arabia is forward-looking and hence excludes all exploration and development costs. The break-even price for Saudi Arabia (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 2018.
- (\*\*\*) The break-even for US Onshore excludes land acquisition cost.

Global exploration and production capital expenditures experienced a drop between 2014 and 2016, reaching a low in 2016. North America experienced the most significant drop in capital expenditures between 2014 and 2016. Since 2016, global capital expenditures have been increasing steadily, with U.S. onshore unconventional resources experiencing the most significant increase. Despite volatility in global capital expenditures since 2014, expenditures in the Middle East and the Kingdom have remained relatively unaffected. In the next three to five years, unless a significant drop in crude oil prices occurs, global upstream capital expenditures are expected to continue increasing at a modest pace.

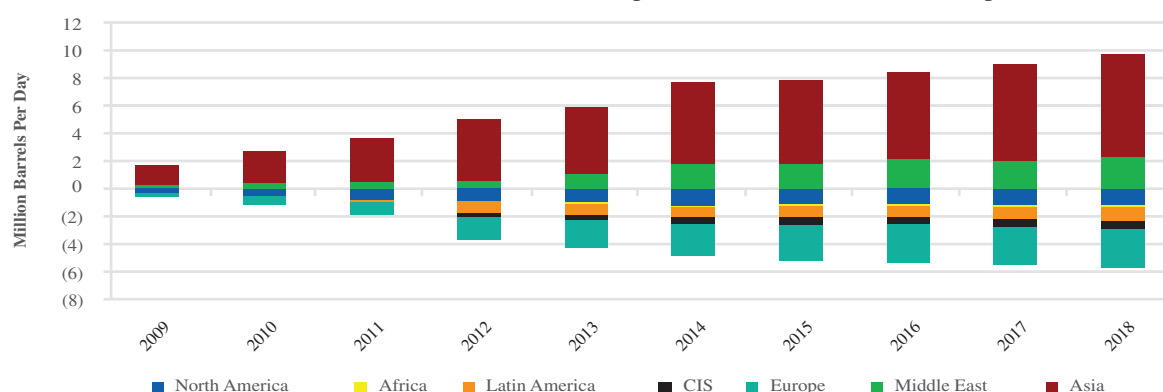
## Growth in Global Demand for Refined Products and Chemicals

Between 2010 and 2017, 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 2.7%, 1.5% and 2.7%, respectively, between 2010 and 2017.

Global demand for refined products is expected to increase at a CAGR of 0.8% from 2017 to 2030 driven by continuing demand from Africa, the Middle East and Asia Pacific, which are expected to grow at CAGRs of 2.3%, 1.8% and 1.4%, respectively. Over that period, Asia Pacific's share of global demand for refined products is expected to increase from 36% to 39%. Demand for refined products in North America from 2017 to 2030 is expected to decrease at a CAGR of 0.5%, and is expected to remain flat in Europe. The following chart illustrates refined product demand by region from 2010 to 2017 and expected refined product demand by region from 2018 to 2030.



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 2009 and 2018, 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.

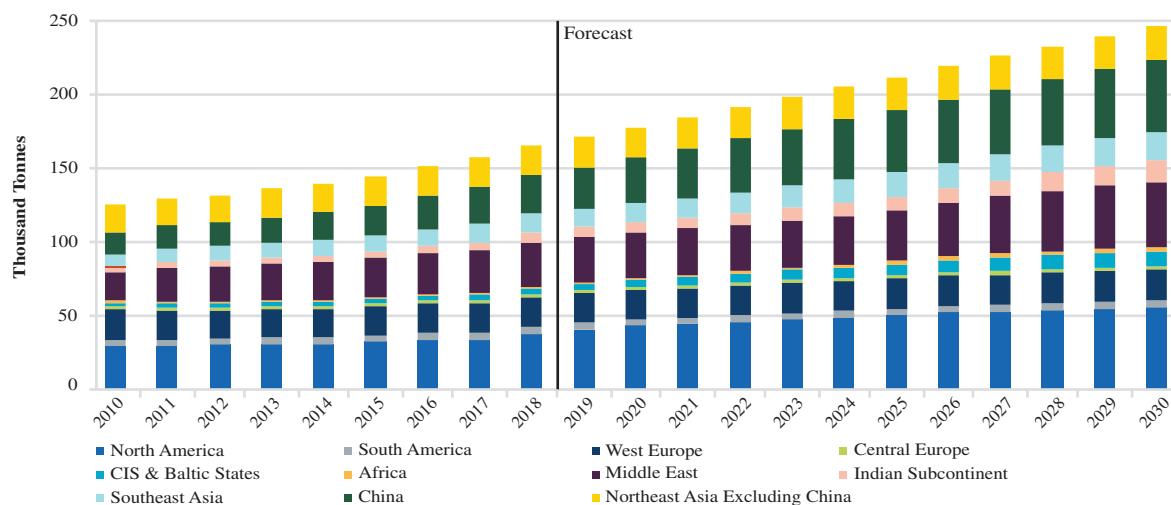


In addition, refinery product yields are shifting to high quality fuels, such as gasoline, jet fuel and certain types of diesel, and the upgrading of fuel oil to higher value products. This shift is driven by regulatory requirements and a global tightening of emissions standards. Fuel economy and GHG 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 3.3%



globally from 2010 to 2018 and is forecasted to grow at a CAGR of 3.6% from 2017 to 2030. 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 5.3% and 3.9%, respectively, from 2017 to 2030. The following chart sets forth the global domestic demand for ethylene by region from 2010 to 2018 and expected domestic demand for ethylene from 2019 to 2030.

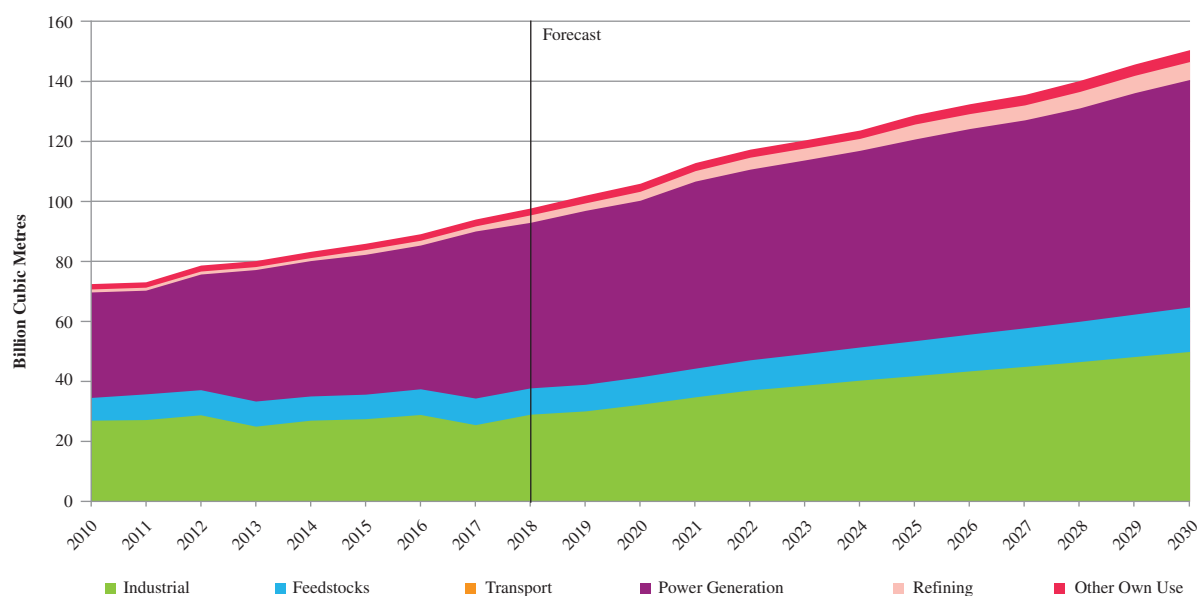


Increasingly, new chemical production projects are expected to be more efficient and sustainable by integrating with existing refineries and expanding the proportion of higher value derivatives, such as fine chemicals and specialties, to base chemicals or commodities.

### In-Kingdom Natural Gas Demand

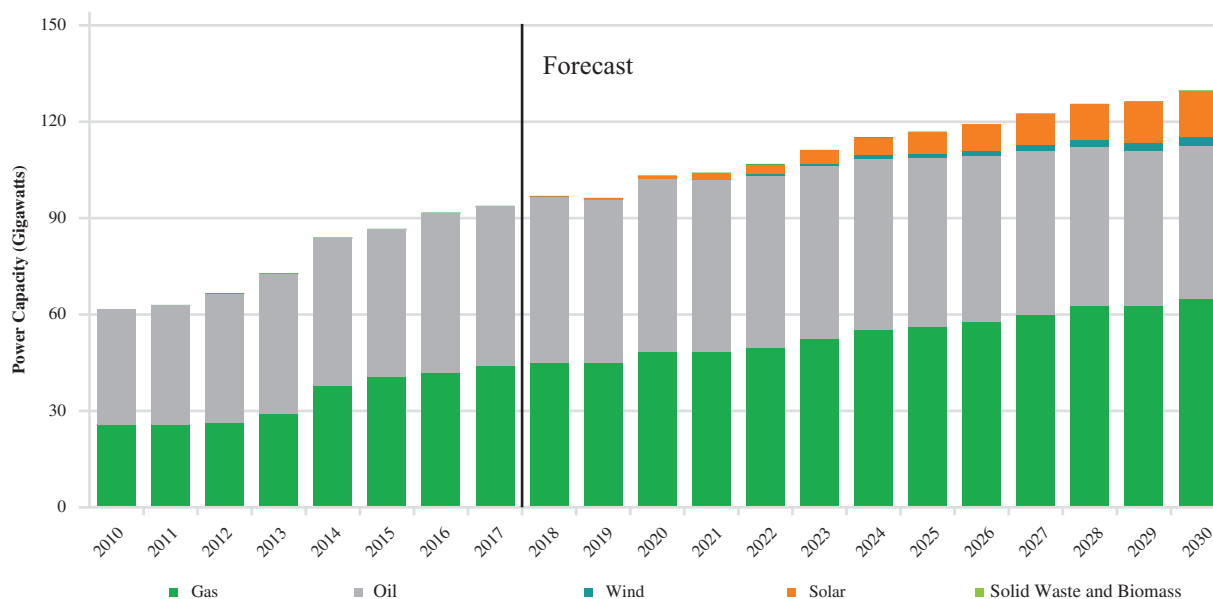
The Kingdom was the seventh largest natural gas market globally in 2018. From 2017 to 2030, in-Kingdom natural gas demand is expected to grow at a CAGR of 3.7%, which is expected to outpace growth of global demand for gas, which is expected to grow at a CAGR of 1.8% during the same period. The Kingdom's 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 "*Business—Operating Segments—Upstream—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 2010 to 2017 and expected natural gas demand by sector from 2018 to 2030.



(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 2030. The following chart shows power capacity growth by fuel (including natural gas) used in the Kingdom from 2010 to 2017 and expected power capacity growth by fuel (including natural gas) used in the Kingdom from 2018 to 2030.



Natural gas-fuelled power capacity is expected to grow at a CAGR of 3.0% from 2017 to 2030, and natural gas-fuelled power generation at a CAGR of 3.4% for the same period. In 2030, power generation using natural gas as feedstock is expected to constitute approximately 68.3% of the country's electricity generation output, up from 60.5% in 2017, while oil's share is expected to decline from 39.4% to 23.3%.

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 2030 with demand expected to grow at a CAGR of 10.2% and 5.3%, respectively, from 2017 to 2030. 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.

## BUSINESS

### Overview

The Company is the world's largest integrated oil and gas company. In 2018, 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 2016 to 2018. As at 31 December 2017, the Company's proved liquids reserves were more than five times the combined proved liquids reserves of the Five Major IOCs. In addition, the Company's net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 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 1933 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 business segments are the upstream segment and the downstream segment, which are supported by the corporate segment.

For the year ended 31 December 2018, 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, with a net cash position as at 31 December 2018, which led to a Gearing ratio of (8.6)% as at 31 December 2018. Free Cash Flow and Gearing are non-IFRS measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see "*Alternative Performance Measures—Free Cash Flow*" and "*Alternative Performance Measures—Gearing*".

### Upstream

The Company is the world's leading producer of crude oil and condensate. In 2018, 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 2018, 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 2017, the Company's rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Effective 24 December 2017, the Concession grants 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, 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 "*Business—Relationship with the Kingdom—The Concession*". 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 2018 the Company's reserves were 256.9 billion barrels of oil equivalent (sufficient for proved reserves life of 52 years), 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 2018, the Company's portfolio included 498 reservoirs within 136 fields distributed throughout the Kingdom and its territorial waters. As at 31 December 2017, the

Company's reserves were 260.2 billion barrels of oil equivalent (sufficient for proved reserves life of 54 years) which was significantly longer than the 9 to 15 year proved reserves life of any of the Five Major IOCs based on publicly available information, consisting of 204.8 billion barrels of crude oil and condensate, 26.0 billion barrels of NGLs and 181.0 trillion standard cubic feet of natural gas.

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 2017. The Company's average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced in 2018, following the Industry Consultant's methodology. In addition, the Company's upstream capital expenditures for the year ended 31 December 2018 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 Company maintains MSC in accordance with the requirements of 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 31 December 2018, 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 2013 to 2018.

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 2018. The Company is the exclusive supplier of natural gas in the Kingdom, the seventh largest natural gas market in the world according to the Industry Consultant, and supplied 8.9 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane in 2018. 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 and supply, trading and marketing operations. The Company's net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 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 crude oil sales, product distribution and power supply.

The Company's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2018. The Company's upstream business supplies all the crude oil 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 2018, 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 downstream's customers.

The Company's refining operations in the Kingdom, including its domestic affiliates, accounted for 62% of its net refining capacity in 2018. 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 the local marketplace, 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, with an increase in net and gross chemical production capacity to 16.8 million and 33.2 million tonnes per year, respectively, as at 31 December 2018. The Company expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's net chemical production capacity to 20.8 million and gross chemical production capacity to 40.2 million tonnes per year.

The Company aims to continue growing and optimising the performance of its downstream business. On 27 March 2019, the Company announced it had 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 ethylene, ethylene glycol, methanol, MTBE, polyethylene and engineering plastics and their derivatives, among other products. The Company expects that the acquisition of a majority stake in SABIC will provide significant expansion of the Company's downstream activities, particularly in its chemicals business. In addition to continuing to evaluate a number of additional large-scale investment opportunities in high-growth markets globally, the Company is considering a number of low capital cost 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 also 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% and 99.8% of its delivery obligations on time in 2017 and 2018, 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, including human resources, finance, corporate affairs and legal.

### **Corporate History and Evolution**

On 29 May 1933, 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 1936. CASOC's first commercial success came in 1938 at a drill site in Dammam, which quickly began producing more than 1,500 barrels of crude oil per day. In 1944, CASOC was renamed Arabian American Oil Company. In 1948, 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 1952, Arabian American Oil Company's headquarters moved from New York to Dhahran, and in 1973, 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 1976. Between 1980 and 1981, the Government increased its participation interest in the company's crude oil concession rights, production and facilities to 100%. During the 1980s, 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 1980s and 1990s, the company established refining and marketing joint ventures in strategic markets around the globe in order to further expand its market and product offerings.



In 1988, 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 4/4/1409 in the Hijri calendar (corresponding to 13 November 1988), to assume the privileges and rights of Arabian American Oil Company.

Beginning in 1988, H.E. Ali Al-Naimi assumed leadership of the Company and continued its focus on shareholder value creation, the expansion and reliability of its upstream business and ongoing operational excellence. During his tenure as chief executive officer from 1995 to 2009, Abdullah Jum'ah focussed on innovation and technology leadership, as well as expanding the Company's footprint within the Kingdom and internationally. As chief executive from 2009 to 2015, H.E. Khalid Al-Falih focussed on accelerating the Company's transformation programme, with an emphasis on integrating the Company's refining and chemicals businesses and global performance, profitability and innovation. Amin Nasser assumed leadership of the Company in 2015 and has focussed on increasing operational excellence and integration, creating a performance based culture and addressing climate change concerns.

Under the leadership of these individuals, the Company's downstream operations expanded significantly. In 1993, 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: DowDuPont (Sadara); Lanxess (ARLANXEO); Petronas (PRefChem); Sinopec (YASREF); Sumitomo (Petro Rabigh); Total (SATORP); Shell (Motiva); and Mobil, whose share was acquired by Jadwa Industrial Investment Company (Luberef). The Company also recently acquired full ownership of Motiva (formerly a joint venture with Shell) and ARLANXEO (formerly an associate in partnership with Lanxess) and increased its ownership stake in S-Oil. 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 2018, the Company was converted into a joint stock company pursuant to Council of Ministers Resolution No. 180 dated 1/4/1439 in the Hijri calendar (corresponding to 19 December 2017) and registered in the city of Dhahran under commercial registration No. 2052101150 dated 11/07/1439 in the Hijri calendar (corresponding to 28 March 2018). 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, consisting of two hundred billion (200,000,000,000) ordinary shares with no par value, all of which are owned by the Government.

The Issuer has been assigned a long-term issuer rating of A1 by Moody's and A+ by Fitch. Moody's has also indicated, based on its grid rating system, that the Issuer has characteristics of a Aaa-rated company. According to Fitch, the Issuer's standalone profile corresponds to a rating of AA+.

## **Business Strategies**

### ***Maintain position as the world's leading crude oil producer by production volume and the lowest cost producer while providing reliable 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 mature fields and younger 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 2017, the most recent year for which comparable data is available for the Five Major IOCs, the Company's average upstream lifting costs and upstream capital expenditures were SAR 10.3 (\$2.8) per barrel of oil equivalent produced and SAR 15.5 (\$4.1) 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.

#### ***Further diversify operations to capture value from strategic integration***

The Company remains focussed on increasing the strategic integration of its upstream and downstream businesses, creating an integrated global downstream refining and chemicals business and enhancing its domestic and global marketing businesses. 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. In addition, 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 proposed acquisition of an approximately 70% equity interest in SABIC would support significant expansion of the Company's downstream activities, particularly in its chemicals business, and provide additional opportunities for the Company to supply mixed feedstock of crude oil, refinery products and gas to manufacture petrochemicals products. Furthermore, the Company's approach of enhancing its domestic and global marketing businesses supports the position of its upstream business in key, high-growth markets, including China, India and Southeast Asia, which are integral to the Company's existing business and future expansion strategy, and maintains the Company's presence in key large marketplaces, such as the United States, and in countries which rely on importing crude oil, such as Japan and South Korea.

#### ***Expand gas activities to supply gas 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 and swing production capacity in the peak summer season 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. In addition, the Company plans to increase the use of gas in its power generation and cogeneration facilities, which supply power to a number of its upstream and downstream operations. 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 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.

#### ***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 2018, the Company had a Gearing ratio of (8.6)%. The Company targets a low Gearing ratio of 5% to 15%. Gearing is a non-IFRS measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see "Alternative Performance Measures—Gearing".

#### ***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.

### **Competitive Strengths**

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

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

In 2018, 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 of oil equivalent was over 20% higher than the combined total liquids production of the Five Major IOCs. As at 31 December 2018, the Company's proved liquids reserves were 226.8 billion barrels. As at 31 December 2017, the Company's proved liquids reserves were 230.9 billion barrels, which was the largest amount of conventional

proved liquids reserves of any company in the world and more than five times the combined proved liquids reserves of the Five Major IOCs. Further, the Company believes that its portfolio includes the world's largest conventional onshore oil field (Ghawar) and largest conventional offshore oil field (Safaniyah).

*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 2018 the Company's reserves were 256.9 billion barrels of oil equivalent (sufficient for proved reserves life of 52 years). Based on a comparison of reserves data of the Five Major IOCs and other leading oil and gas companies, as at 31 December 2017, the Company's reserves were 260.2 billion barrels of oil equivalent (sufficient for proved reserves life of 54 years), which was significantly longer than the 9 to 15 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.

*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 MSC, 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.

*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 2013 to 2018 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 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.

*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 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.

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

As at 31 December 2018, the Company had 185.7 trillion standard cubic feet of proved natural gas reserves. In 2018, 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 3.7% from 2017 to 2030. This increase is primarily due to demand from power generation and the refining and industrial sectors. As a result, from 2003 to 2018, the Company significantly expanded its gas processing capacity and intends to continue to expand its capacity over the next few years.

*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. According to an article published in the 31 August 2018 edition of Science Magazine, the Kingdom's volume weighted average crude oil upstream GHG intensity in 2015 ranked second lowest among the 50 countries analysed. Two of the 24 authors of such article received funding from a subsidiary of the Issuer and other authors received funding from other sources.

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

The Company's upstream 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 2018, the Company's average upstream lifting cost was SAR 10.6 (\$2.8) per barrel of oil equivalent produced. For the year ended 31 December 2017, the most recent year for which comparable data is available for the Five Major IOCs, the Company's average upstream lifting costs were SAR 10.3 (\$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 year ended 31 December 2018 averaged SAR 17.7 (\$4.7) per barrel of oil equivalent produced also using the Industry Consultant's methodology. For the year ended 31 December 2017, the most recent year for which comparable data is available for the Five Major IOCs, the Company's upstream capital expenditures averaged SAR 15.5 (\$4.1) 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.

#### ***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*

The Company has a strong track record as a reliable crude oil supplier, meeting 99.7% and 99.8% of its delivery obligations on time in 2017 and 2018, respectively. In 2018, 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 2018, 38% of crude oil produced by the Company was delivered into this captive downstream system.

##### *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 2016, 2017 and 2018, 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 2018, 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.

##### *Fourth largest integrated refiner in the world on a net refining capacity basis, supplying high-value products to the Kingdom and international marketplaces*

The Company's net refining capacity as at 31 December 2017 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 2018, 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 expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 million barrels per day. The Company's operations in the Kingdom, including its affiliated refineries, accounted for 62% of its net refining capacity in 2018. 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.

#### *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 markets 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.

#### *World class partners*

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

#### **Company Competitive Strengths**

##### *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.

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

(1) Source: Public filings.

(2) SAR and \$ in billions.

(3) Free Cash Flow, EBIT, EBITDA and ROACE are non-IFRS 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 "Alternative Performance Measures—Free Cash Flow", "Alternative Performance Measures—EBIT and EBITDA" and "Alternative Performance Measures—Return on Average Capital Employed".

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

As at 31 December 2018, the Company had a Gearing of (8.6)%, which was lower than each of the Five Major IOCs, whose Gearing was between 14% and 30%. Gearing is a non-IFRS measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see "Alternative Performance Measures—Gearing".

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

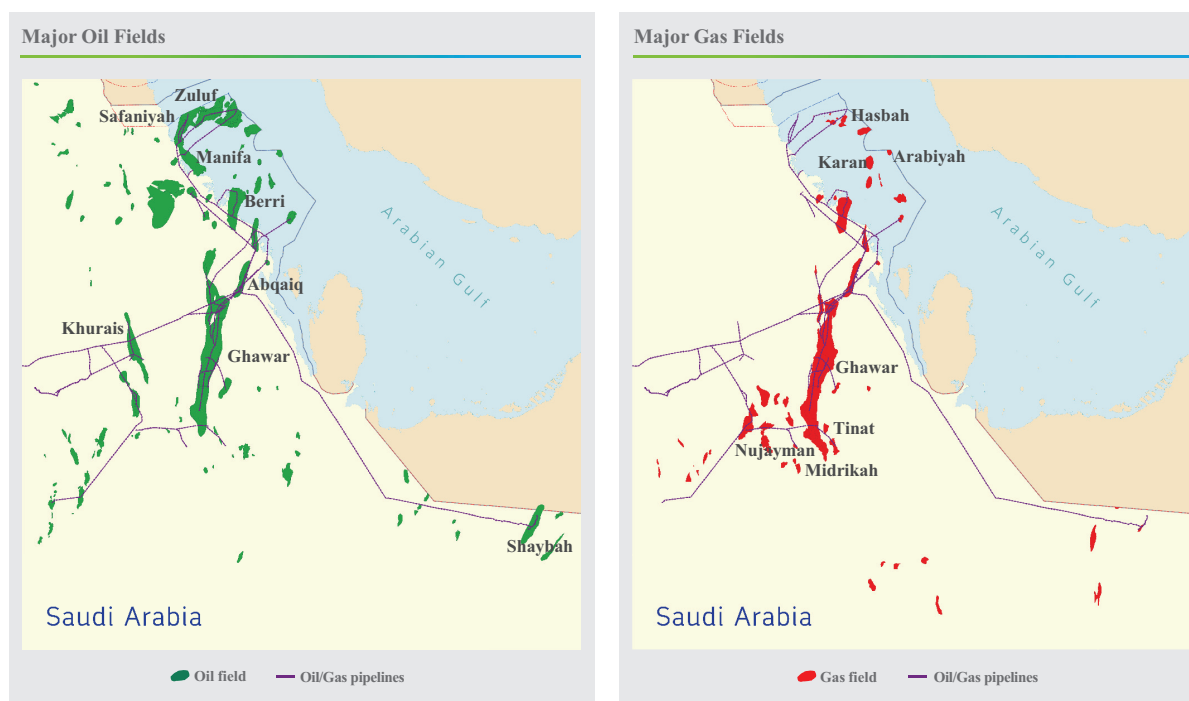
The Company has a long track record of successfully executing some of the largest upstream and downstream capital projects in the oil, gas and petrochemicals business. From 2014 to 2018, the Company executed 22 projects with capital expenditures of more than SAR 1.9 billion (\$500 million) each.

## 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, natural gas and NGLs. The downstream segment's activities consist primarily of refining and petrochemical manufacturing and supply, power generation, trading and marketing operations. The Company's business support activities are included within its corporate segment.

### 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. See "Material Agreements—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.



As at 31 December 2018, the Company's proved crude oil and condensate reserves were 201.4 billion barrels. In addition, as at 31 December 2018, 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 2017, the Company's proved crude oil and condensate reserves were 204.8 billion barrels. In addition, as at 31 December 2017, the Company had proved NGL reserves of 26.0 billion barrels and proved natural gas reserves of 181.0 trillion standard cubic feet. As at 31 December 2017, the Company's proved liquids reserves were 230.9 billion barrels, which was more than five times the combined proved liquids reserves of the Five Major IOCs as at that date.

In 2018, 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.

### Reserves

The Company's upstream 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 2018, the Company's upstream 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 2017, the most recent year for which comparable data is available for the Five Major IOCs, the Company's average upstream lifting costs and upstream capital expenditures were SAR 10.3 (\$2.8) and SAR 15.5 (\$4.1) per barrel of oil equivalent, respectively, which were lower than those of each of the Five Major IOCs, based on lifting cost and capital expenditure data provided by the Industry Consultant.

As at 31 December 2018, 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 2017, the Company's rights with respect to hydrocarbons in the Kingdom were not limited to a particular term. Effective 24 December 2017, the Concession grants 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, 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 "*Material Agreements—The Concession*". The Concession also requires the Company to meet domestic demand for certain hydrocarbons, petroleum products and LPG through domestic production or imports. The provision of a specified term in the Concession impacted the calculation of the Company's reserves.

Based on the initial 40 year period and 20 year extension of the Concession, as at 31 December 2018 the Company's reserves were 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 2018, 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 2017, the Company's reserves were 260.2 billion barrels of oil equivalent (sufficient for proved reserves life of 54 years), which was significantly longer than the 9 to 15 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 reserves at the Abqaiq field have increased over 13.5 times from 1944 (when production began at the field) to 2018. The organic crude oil and condensate reserves replacement ratio based on the Kingdom's reserves on a three year rolling average from 2016 to 2018 was 104%. The organic oil-equivalent reserves replacement ratio based on the Kingdom's reserves on a three year rolling average from 2016 to 2018 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 as at 31 December 2017 and 2018.

	Crude Oil (mmbbl)	Condensate (mmbbl)	Natural Gas (bscf) (mmboe)		NGLs (mmbbl)	Combined (mmboe)
Reserves as at 31 December 2017 .....	201,818	3,015	180,957	29,377	26,024	260,234
Reserves as at 31 December 2018 .....	198,194	3,191	185,726	30,120	25,385	256,890

The following table sets forth the Kingdom's estimates of its proved reserves as at 31 December 2017 and 2018.

	Crude Oil (mmbbl)	Condensate (mmbbl)	Natural Gas (bscf) (mmboe)		NGLs (mmbbl)	Combined (mmboe)
Reserves as at 31 December 2017 .....	256,737	4,124	224,394	36,939	35,097	332,897
Reserves as at 31 December 2018 .....	257,270	4,257	233,766	38,519	36,144	336,190

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 and the Society of Petroleum Evaluation 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 routinely 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 audit reservoirs the Company believes accounted for approximately 80% of the Company's oil equivalent reserves as at 31 December 2017. 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 208.7 billion barrels of oil equivalent reserves was 0.1% higher than the Company's internal estimation for the same reservoirs. The certification letter of D&M, which describes its procedures, conclusions and assumptions, appears as Appendix C to this Base 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.

## Upstream Production and Deliveries

The following table highlights the Company's upstream production and deliveries in 2016, 2017 and 2018:

	Year Ended 31 December		
	2016	2017	2018
<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) . . . . .	75	72	70
Butane to third parties (mbpd) . . . . .	151	145	151
Propane to third parties (mbpd) . . . . .	149	128	142
<b>Total (mbpd) . . . . .</b>	<b>7,845</b>	<b>7,465</b>	<b>7,707</b>

(1) Production does not include the Kingdom of Bahrain's entitlement to volumes produced from Abu Sa'fah, which was 154 mbpd, 153 mbpd and 152 mbpd for the years ended 31 December 2016, 2017 and 2018, respectively.

(2) Includes condensate blended with crude oil of 116 mbpd, 121 mbpd and 125 mbpd for the years ended 31 December 2016, 2017 and 2018, 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.

## Crude Oil and Condensate

As at 31 December 2018, the Company operated 101 crude oil fields, including some of the world's largest in terms of proved reserves.

### 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.

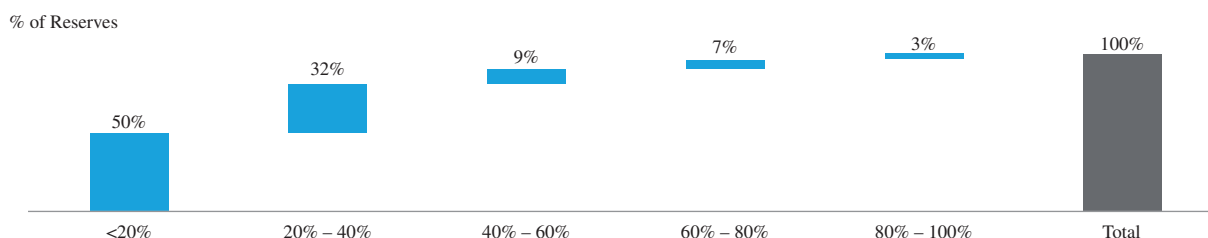
The Company places a strong emphasis on operational performance improvement of its drilling operations by applying innovative drilling technologies and benchmarking of key metrics to identify trends and potential areas for improvement. The Company believes that its approach to drilling and development has led to high levels of well integrity.

### 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.

### 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 expected ultimate recovery. As at 31 December 2018, 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 2018.



The Company also aims to optimise recovery of its reserves. As at 31 December 2018, 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 and Maximum Reservoir Contact Wells), to optimise horizontal and vertical reservoir sweep.

### 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 Company maintains MSC in accordance with the requirements of the Hydrocarbons Law. As at 31 December 2018, 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 estimates that the cumulative revenue generated during the 6-year period from 2013 to 2018, inclusive, by utilising this spare capacity was SAR 133.0 billion (\$35.5 billion).

#### 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% and 99.8% of its delivery obligations on time in 2018, 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 2018.

	API Gravity	Sulphur Content	% of 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

#### Principal Oil Fields

The following table sets forth the Company's reserves and MSC of the Company's largest oil fields as at 31 December 2018, which are listed according to 2018 production.

	Liquids Reserves <sup>(1)</sup> (mmbbl)	Combined Reserves (mmboe)	MSC (mmbpd)
Ghawar	48,254	58,319	3.800
Shaybah	13,617	14,864	1.000
Khurais	20,100	21,402	1.450
Safaniyah	33,664	34,029	1.300
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>

(1) Liquids reserves consist of crude oil, condensate and NGLs.



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.

D&M's reserves certification as at 31 December 2017 included evaluating reservoirs at the five largest oil fields in terms of reserves. See Appendix C to this Base Prospectus. The following descriptions provide further details concerning the Company's largest 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, Uthaminyah, 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 2018, including 48.25 billion barrels of liquids reserves. It has accounted for more than half of the total cumulative crude oil production in the Kingdom but still maintained a MSC of 3.800 million barrels of crude oil per day as at 31 December 2018.

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.

#### Shaybah

The Shaybah field 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. As at 31 December 2018, 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, including 13.62 billion barrels of liquids reserves.

#### Khurais

The Khurais Complex, which comprises the Abu Jifan and Mazaliy fields in addition to Khurais itself, is approximately 106 kilometres long and 18 kilometres across at its widest point.

As at 31 December 2018, the MSC at Khurais was 1.450 million barrels of crude oil per day. As at 31 December 2018, proved reserves at Khurais were 21.40 billion barrels of oil equivalent, 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 in accordance with the agreements between the Kingdom and the State of Kuwait and is operated by AGOC.

As at 31 December 2018, 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, including 33.66 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, and is of similar area as the Safaniyah field to the north.

As at 31 December 2018, 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, including 30.42 billion barrels of liquids reserves.

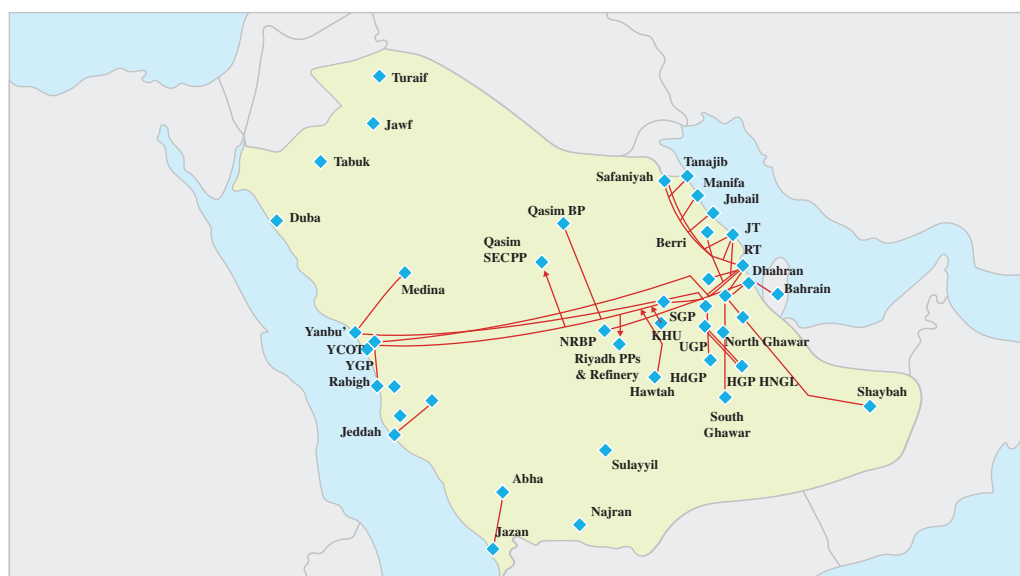
### Crude Infrastructure

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 travels 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 2018, the East-West pipeline transported an average of 2.1 million barrels per day of crude oil. The capacity of the East-West pipeline is expected to increase from 5.0 million barrels per day to 6.5 million barrels per day in 2023. 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 2018. Moreover, the Company operates four crude terminals with a total storage capacity of 66.4 million barrels as at 31 December 2018, 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.

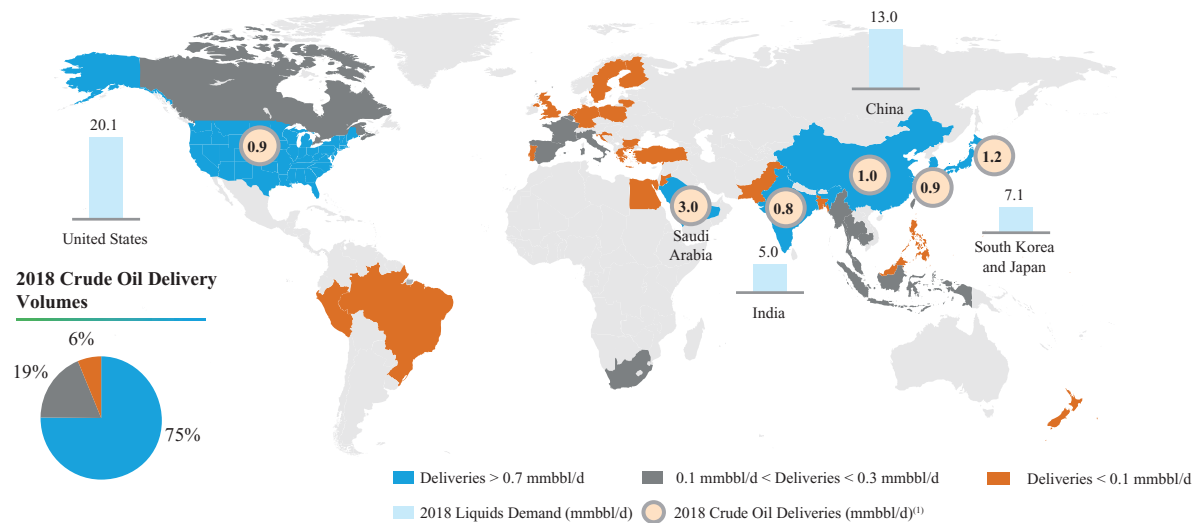


**HdGP** – Haradh Gas Plant  
**HGP HNGL** – Hawiyah Gas Plant & Hawiyah NGL Recovery Plant  
**JT** – Juaymah Terminal  
**KHU** – Khurais  
**NRBP** – North Riyadh Bulk Plant  
**Qasim BP** – Qasim Bulk Plant  
**Qasim SEC PP** – Qasim Saudi Electric Company Power Plant

**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

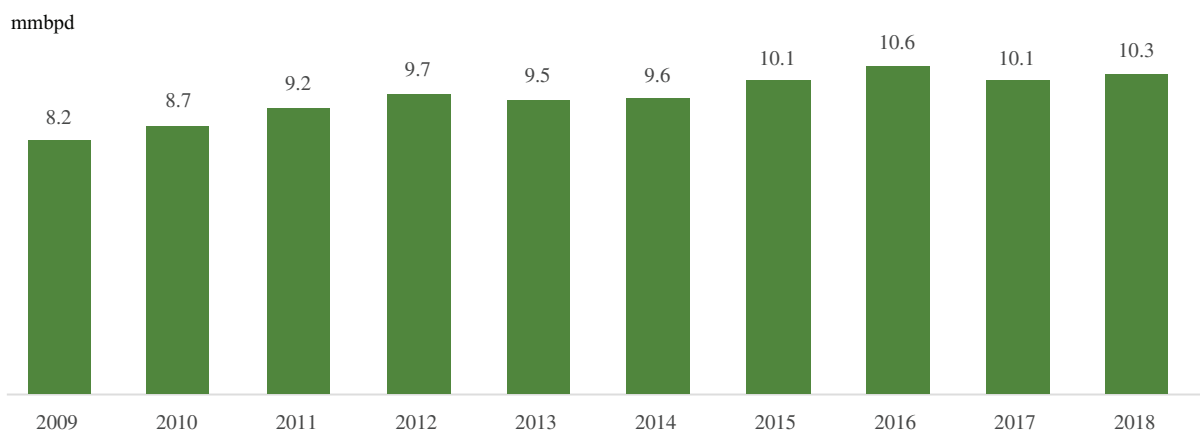
## Sales and Marketing

The following chart illustrates the locations of the Company's crude oil deliveries in 2018.

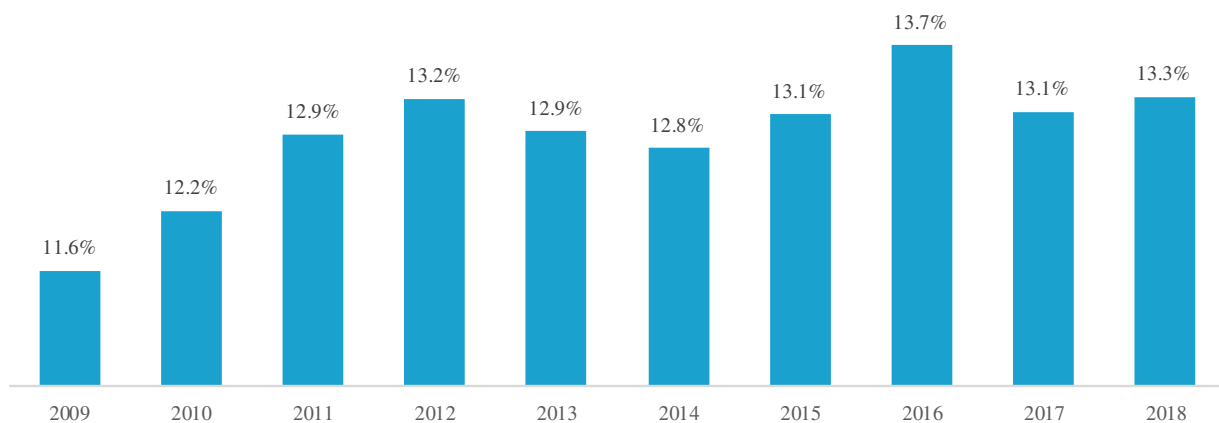


(1) Includes deliveries to the Company's wholly owned and affiliated refineries.

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 2009 to 2018.



The following chart illustrates the Company's global crude oil market share from 2009 to 2018.



In 2018, 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. The Company's captive downstream system also provides direct access to the Kingdom. 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 2018. 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 "*Material Agreements—The Concession*". As such, 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 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of the Company's compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes*".

#### *Gas and NGLs*

As at 31 December 2018, the Company had 185.7 trillion standard cubic feet of proved natural gas reserves and 25.4 billion barrels of proved NGL reserves.

In 2018, the Company produced 8.9 billion standard cubic feet per day of natural gas, 1.0 billion standard cubic feet 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 2018, 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 seventh largest gas market in the world according to the Industry Consultant. Since 1980, the Company has produced associated gas from oil production to supply the domestic energy market, and in 1984 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 2010 to 2017 and is expected to grow at a CAGR of 3.7% from 2017 to 2030.

Between 2009 and 2018, 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 2016 with a capacity to process 2.5 billion standard cubic feet per day of gas and generate 798 MW of electricity through cogeneration. In 2017, 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.

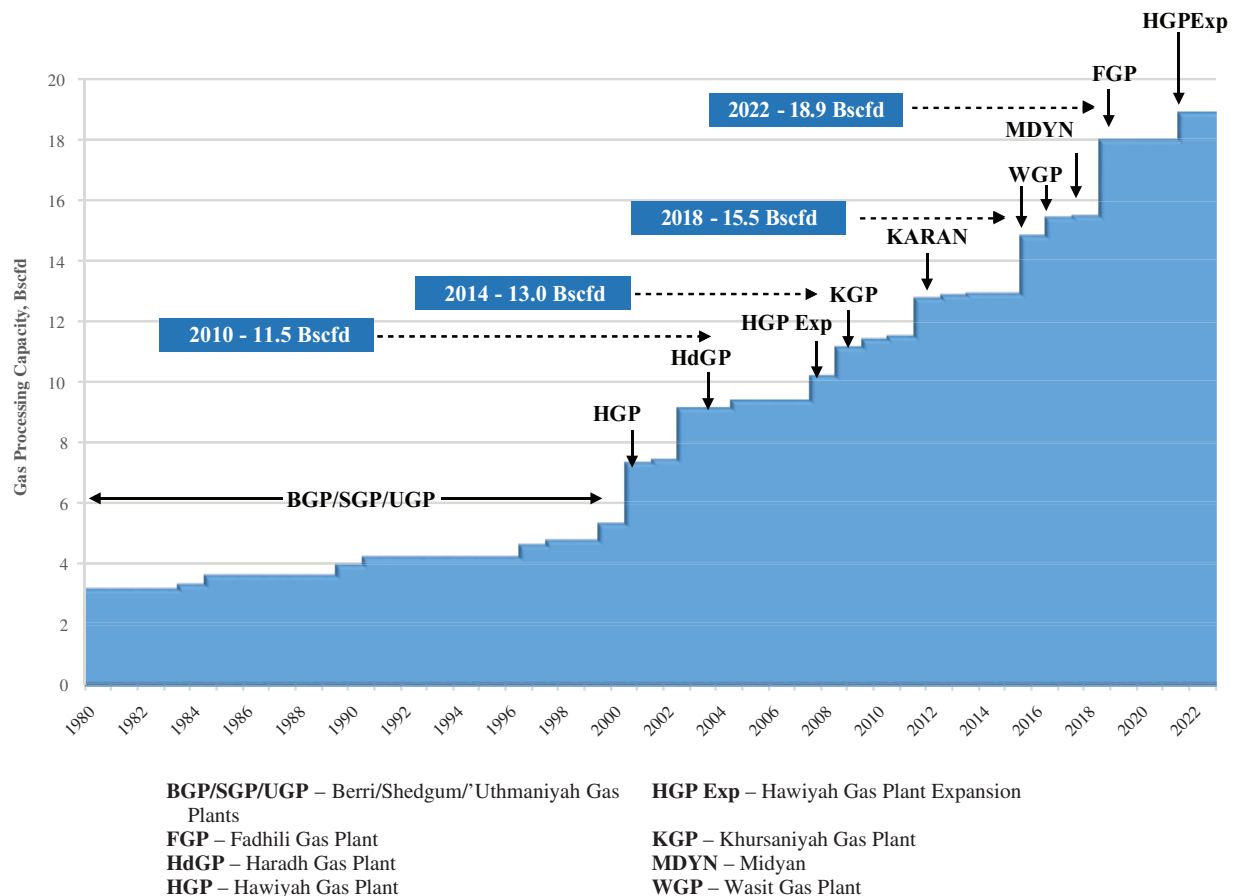
The Company's gas and NGL infrastructure currently consists of the following:

- 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 1975 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 1980 to 2018 and planned increases through 2022.



### 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 2006, 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.



## 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 expects to compensate for this decrease in gas to oil ratio by increasing its total oil production volumes to maintain gas production volume.

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 2018, 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.

## 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 southern and northern regions 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 2006 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 2006, Karan began production through existing facilities at Khursaniyah in 2011. Full production through new dedicated facilities started in 2012 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 international border between the Kingdom and Iran, in 2008 following the success of Karan in the same deep Khuff formation. Arabiyah started production to feed the new Wasit Gas Plant in early 2017.
- *Hasbah*. The Hasbah field was discovered in 2008 and was the third of the three major discoveries in the Khuff formation. It lies slightly to the northwest of Arabiyah and straddles the international border between the Kingdom and Iran. Hasbah is designed to contribute both to the new Wasit Gas Plant and to the Fadhili Gas Plant (with total gas processing capacity of 2.5 billion cubic feet per day), which is under construction and expected to be completed in 2019.
- *Unconventional Opportunities*. The Company's unconventional resources programme is primarily focussed in Northern Arabia, South Ghawar and Jafurah.

#### 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.

#### 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 "*Regulation of the Oil and Gas Industry in the Kingdom—Law of Gas Supplies and Pricing*" and "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons*".

#### ***Downstream***

The Company has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing and supply, power generation, trading and marketing operations. The downstream segment's other business activities include crude oil sales, product distribution, trading and marketing and power generation.

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 2010 to 3.1 million barrels per day as at 31 December 2018. The Company's net refining capacity as at 31 December 2017 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 2018, the Company had a gross refining capacity of 4.9 million barrels per day. The Company expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's gross refining capacity to 5.6 million barrels per day and net refining capacity to 3.7 million barrels per day.

In 2018, 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 many full conversion refineries, including SATORP and S-Oil.

The Company's downstream operations began in 1945 when the Ras Tanura refinery started operations and expanded with the acquisition of an in-Kingdom refining network from Samarec in 1993. 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-2000s 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 1998, Sumitomo (Petro Rabigh) in 2005, Total (SATORP) in 2008, Sinopec (YASREF) in 2010, DowDuPont (Sadara) in 2011 and Petronas (PRefChem) in 2018. 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 take a more active role in its affiliates by increasing its equity interests and management participation in order to ensure that they are operated efficiently and profitably. For example, in 2015, 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 2017, 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 2018, the Company acquired full ownership in ARLANXEO (an associate in partnership with Lanxess). Furthermore, on 27 March 2019, the Company announced it had entered into a purchase agreement with the PIF to acquire an approximately 70% equity interest in SABIC for total consideration of \$69.1 billion. SABIC manufactures chemicals, commodities, high performance plastics and steel and operates in over 50 countries. If consummated, the SABIC transaction would support significant expansion of the Company's downstream activities, particularly in its chemicals business. These transactions in the Company's downstream business are aimed 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 60,000 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 on a material scale.

### *Refining*

The Company operates one of the world's largest refining businesses, with gross throughput of 4.7 million barrels per day for 2018. The Company's refining operations allow it to transform its crude oil and natural gas into refined products and chemicals to supply the Kingdom and international markets. 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. The following table sets forth the gross capacity of the Company's refineries as at 31 December 2018.

	<b>Capacity</b> <b>(mbpd)</b>
In-Kingdom wholly owned <sup>(1)</sup> . . . . .	930
In-Kingdom joint ventures and joint operations . . . . .	1,905
International <sup>(2)</sup> . . . . .	2,029

(1) Not including additional refining capacity of 400,000 barrels per day from Jazan, which is expected to commence operations in 2019.

(2) Not including additional refining capacity of 300,000 barrels per day from PRefChem, which is expected to commence operations in 2019.

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 formed 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 during 2019 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 markets for its crude oil production.

Recent investments in the refining portfolio include Jazan, which is expected to commence operations in 2019, and a residue upgrading and petrochemicals complex project at S-Oil which was commissioned in 2018.

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 2017 and 2018.

	<b>Year Ended</b> <b>31 December</b>	
	<b>2017</b>	<b>2018</b>
	<b>(mbpd)</b>	
<b>Consolidated basis<sup>(1)</sup>:</b>		
Diesel . . . . .	747	762
Gasoline . . . . .	422	416
Jet fuel/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>
Gasoline . . . . .	342	447
Jet fuel/kerosene . . . . .	212	312
Diesel . . . . .	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 – fully 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>

(1) Represents production from the Company and its affiliated entities on the same basis that such entities are consolidated in the Financial Statements.

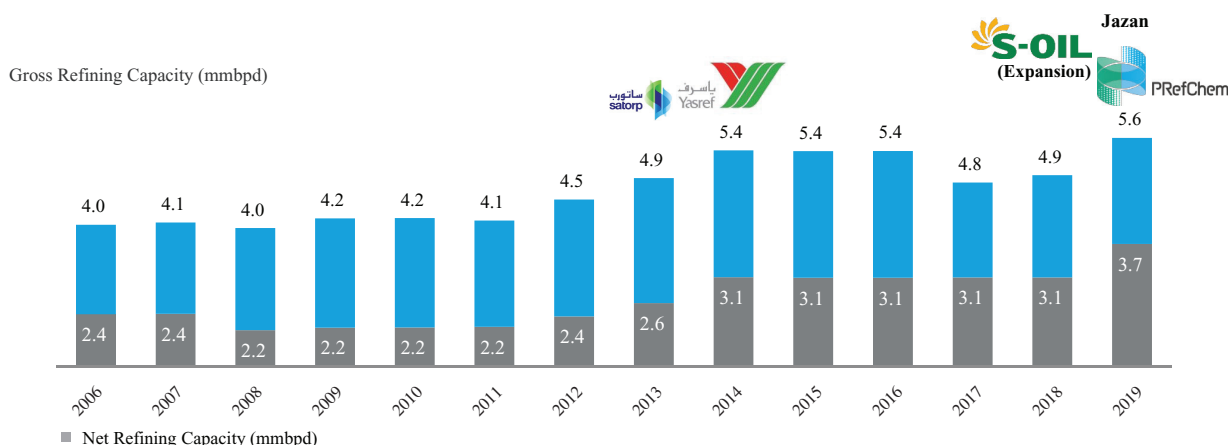
(2) Primarily includes naphtha, LPG and asphalt, in addition to lubricants and chemicals for certain international affiliates.

(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 2017.

(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 changes in the Company's refining capacity from 2006 to 2019.



The Company's consolidated share of its global refining system produced 3.2 million barrels per day of refined products in 2018. In general, with respect to the Company's international joint ventures, the joint venture company handles all or a portion of the local marketplace 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.

### 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 2018, 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 2018. 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 to international markets by its sales and trading arm. For further information regarding the Company's supply and trading, see "*Trading*".

### 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 the domestic marketplace. In November 2017, 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 2018.

	Asset Type	Capacity (mbpd)	Throughput (mbpd)	Utilisation (%)
Ras Tanura .....	Refining	550	528	96
Yanbu' .....	Refining	250	251	100
Riyadh .....	Refining	130	139	107
<b>Total</b> .....		<b>930</b>	<b>918</b>	<b>99%</b>

- *Ras Tanura*. The Ras Tanura Refinery is located in the Eastern Province of the Kingdom and was completed in 1941. Operations began in 1945 with a number of major expansions and upgrades over the subsequent years creating the largest refinery in the Middle East and one of the largest in the world by capacity. 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 1983. 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 under construction in the Jazan Province of the Kingdom. Jazan is expected to commence operations in 2019 with a full capacity to process 400,000 barrels of crude oil per day in 2020.

#### Domestic Affiliated 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 2018, 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 2018.

	Asset Type	Capacity (mbpd)	Throughput (mbpd)	Economic Interest (%)	Utilisation (%)	Partner
SATORP .....	Refining and petrochemical	400	418	62.5	105	Total
YASREF .....	Refining and petrochemical	400	421	62.5	105	Sinopec
SAMREF .....	Refining	400	328	50.0	82	ExxonMobil
SASREF .....	Refining	305	307	50.0	101	Shell
Petro Rabigh .....	Refining and petrochemical	400	387	37.5	97	Sumitomo
<b>Total</b> .....		<b>1,905</b>	<b>1,861</b>		<b>98%</b>	

- *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.
- *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.
- *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 is 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. It has a total gross refining capacity of 305,000 barrels of crude oil per day and a net refining capacity of 153,000 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.

#### International Refining

The Company's international refining footprint is focussed in key growth markets, 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 2018, 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 11,500 branded company-owned company-operated or dealer-owned dealer-operated retail networks.

The following table provides data about the Company's international refining operations as at 31 December 2018.

	Asset type	Location	Gross Refining Capacity (mbpd)	Throughput (mbpd)	Economic Interest (%)	Utilisation (%)	Partner	Retail sites
Motiva (Port Arthur Refinery) . . . . .	Refining and petrochemical	U.S.	635	654	100.0	103	—	>5,000
S-Oil . . . . .	Refining and petrochemical	South Korea	669	657	61.6 <sup>(1)</sup>	98	—	>2,100
FREP . . . . .	Refining and petrochemical	China	280	176	25.0	63	Sinopec, ExxonMobil	N/A
SSPC . . . . .	Marketing	China	—	—	22.5	—	Sinopec, ExxonMobil	>1,000
Showa Shell . . . . .	Refining and petrochemical	Japan	445	429	15.1	96	—	3,400
<b>Total</b> . . . . .			<b>2,029</b>	<b>1,916</b>		<b>94</b>		

(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%.

- **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 1998 when Shell merged its eastern and southeastern U.S. operations with Star Enterprise, a joint venture between Texaco and Saudi Refining. From 2002 until May 2017, Motiva was a joint venture between the Company and affiliates of Shell. On 1 May 2017, 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.
- **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 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 a 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 retail sites 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.
- **Showa Shell.** Showa Shell owns and operates approximately 3,400 Shell branded retail service stations in Japan and has equity stakes in three refineries in Japan that produce refined products, propylene, benzene and

mixed xylene. Showa Shell's sales in Japan are primarily gasoline, kerosene and automotive lubricants. Its international sales include aviation fuel as well as marine bunkers and lubricants. Showa Shell is expected to merge with Idemitsu Kosan Co. Ltd on 1 April 2019.

- *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 co-generation 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 per day, of Arabian crude and the offtake rights for 50% of production, including gasoline, diesel, kerosene, olefins, polymers and glycol. As at 31 December 2018, the project was 88% complete with commissioning activities underway.

#### Lubricant 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 2018, the Company sold 4.1 million tonnes of base oils. The Company has an interchangeable Group II global slate incorporating Luberef, S-Oil and Motiva base oil production through two technical programmes covering API and ACEA certification requirements. This allows customers to source base oils meeting their existing specifications for finished lubricants from any one of the Company's lubricant base oil facilities.

The following sets forth a description of the Company's base oil operations.

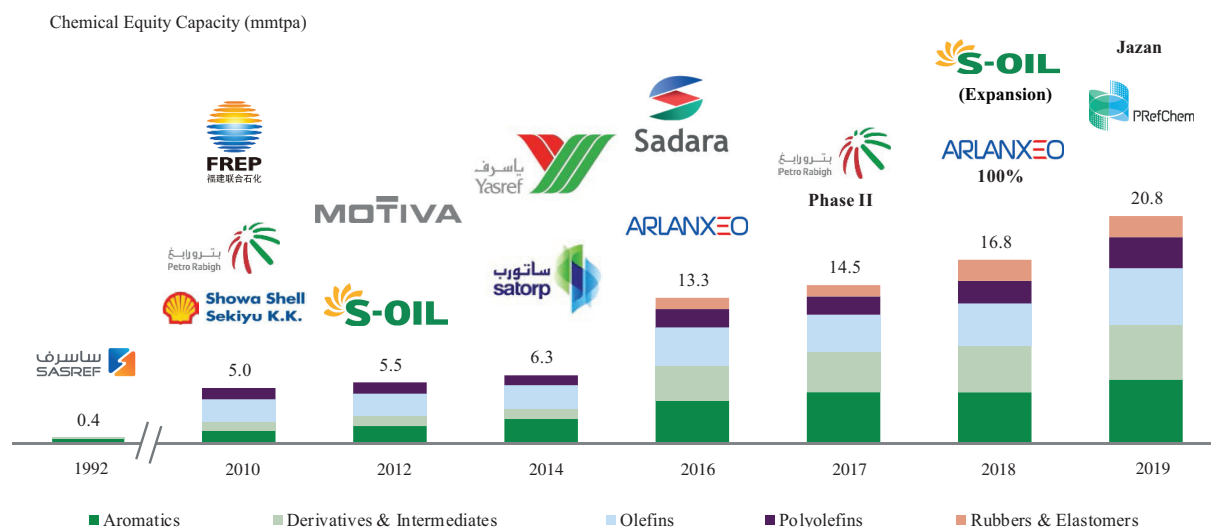
- *Luberef*. Luberef is an affiliate whose shareholders are the Company and Jadwa Industrial Investment Company that supplies base oils to major lubricant blenders operating around the world. Luberef produces high-quality base oil at an optimised grade mix from its two production facilities that are strategically located in Jeddah and Yanbu'. In January 2018, Luberef commissioned new Group II base oils facilities which increased Luberef's total base oil production capacity from 550,000 tonnes to 1,100,000 tonnes.
- *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 branded base oils are 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 1976 in South Korea. S-Oil 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 2017, 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.

#### *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. The Company's chemicals business has increased its net chemical production capacity to 16.8 million tonnes per year as at 31 December 2018. The Company expects the Jazan integrated petrochemical refinery and the PRefChem integrated refinery and petrochemicals complex to commence operations by the end of 2019, which will increase the Company's net chemical production capacity to 20.8 million tonnes per year.

The following chart illustrates growth of net production capacity in the Company's chemicals business from 1992 to 2019.



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 markets 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 DowDuPont (Sadara), ExxonMobil (SAMREF), Shell (SASREF), Sinopec (YASREF), Sumitomo (Petro Rabigh) and Total (SATORP). 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.

The following table and paragraphs provide data and descriptions concerning the Company's standalone chemicals facilities as at 31 December 2018. The Company uses the term standalone chemicals facilities to refer to chemicals production facilities in which refined products are not also produced.

	Economic Interest	Location	Nature of Activities	Chemicals Production
Sadara .....	65.0%	Kingdom	Petrochemical	Olefins, polyethylene, ethylene oxide, butyl glycol, amines, propylene oxide, propylene glycol, polyols, isocyanates
ARLANXEO .....	100.0%	Netherlands	Petrochemical	Synthetic rubber and elastomers

- *Sadara.* Sadara is a joint venture between the Company and DowDuPont that was established in October 2011. 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 chemicals 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 DowDuPont 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 2016 to December 2018, ARLANXEO was an associate of the Company in partnership with Lanxess, a German speciality chemicals company. On 31 December 2018, 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 operations include the following affiliates:

	Economic Interest	Location	Chemicals Production
<b>Domestic Operations:</b>	(%)		
SATORP .....	62.5	Kingdom	Benzene, Paraxylene, Propylene
YASREF .....	62.5	Kingdom	Benzene
SASREF .....	50.0	Kingdom	Benzene
Petro Rabigh .....	37.5	Kingdom	Ethylene, Propylene, Polyethylene, Polypropylene, Propylene Oxide, Paraxylene, Benzene, Monoethylene glycol, Phenol/acetone, Poly-methyl-methacrylate, Nylon
<b>International Operations:</b>			
S-Oil .....	61.6 <sup>(1)</sup>	South Korea	Paraxylene, Benzene, Toluene, Xylene, Propylene, Polypropylene, Propylene oxide
PRefChem <sup>(2)</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

(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) PRefChem is expected to commence operations in 2019.

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 petrochemicals 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.

#### 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.

#### 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 automobiles, furniture, construction, appliances, coatings and adhesives.

The following table sets forth the Company's gross capacity and net capacity for each type of its commodity petrochemicals, principal polyolefins, synthetic rubber and elastomers and other chemicals as at 31 December 2018.

	Gross Capacity <sup>(1)</sup>	Net Capacity <sup>(1)</sup>
	(in thousand tonnes)	
<b>Commodity petrochemicals:</b>		
Ethylene .....	4,299	1,915
Propylene .....	3,957	1,986
Paraxylene .....	3,957	1,986
Benzene .....	2,376	1,123
Other aromatics .....	3,276	1,555
<b>Principal polyolefins:</b>		
Polyethylene .....	2,985	1,309
Polypropylene .....	1,773	688
<b>Synthetic rubber and elastomers:</b>		
Synthetic rubber and elastomers .....	2,039	1,915
<b>Other chemicals (including polyurethanes):</b>		
Intermediates .....	1,491	769
Derivatives .....	7,050	3,532

(1) Capacity reflects full capacity at Arlanxco following the Company's purchase of a 100% ownership interest in Arlanxco, which closed on 31 December 2018.

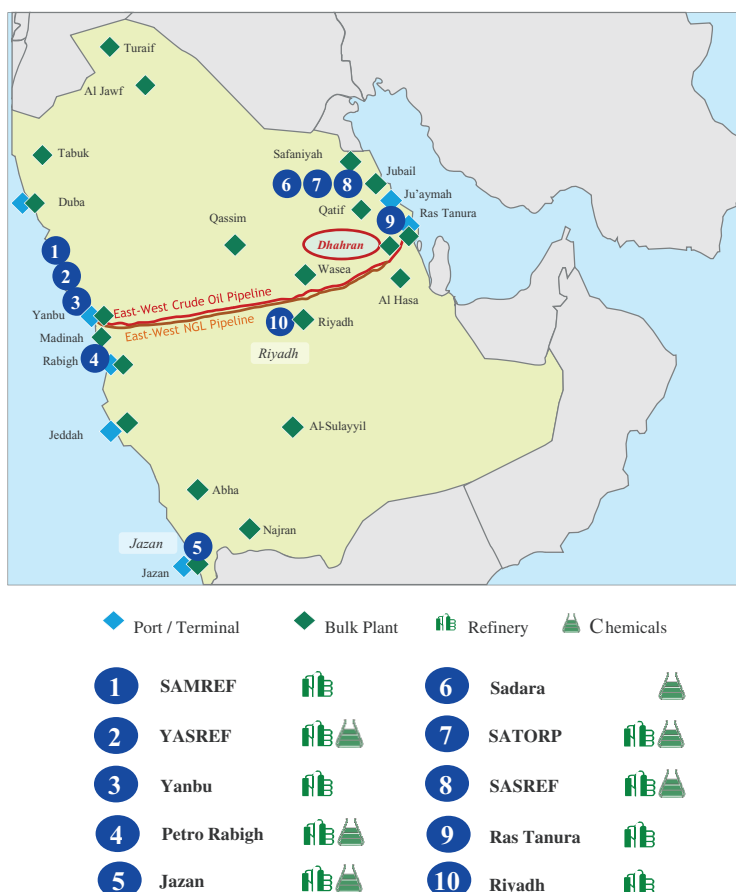
#### *Pipelines, Distribution and Terminals*

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 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 improve 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, 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 2018.



### Trading

In 2018, 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 thousand 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.

### Power

As at 31 December 2018, the Company's power business 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 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 24.81% stake in Marafiq, a domestic utility company that serves the industrial areas of Jubail and Yanbu'.

As at 31 December 2018, the Company had 6.54 gigawatts of power generation capacity as further detailed in the table below.

<b>Power Supply Model</b>	<b>Total Capacity</b>	<b>Ownership Interest</b>	<b>Offtake Entitlement / Contractual Obligation</b>
Wholly owned by the Company .....	4,014 megawatts	100%	N/A
Joint ventures .....	885 megawatts	50% <sup>(1)</sup>	885 megawatts
Owned by third party power producers .....	1,643 megawatts	0% <sup>(2)</sup>	1,643 megawatts

(1) The power plant will be transferred to the Company in 2037 pursuant to an agreement among the joint venture partners for no further consideration.

(2) The power plant will be transferred to the Company in 2026 pursuant to an agreement among the joint venture partners for no further consideration.

In 2018, the Company generated 4,757 megawatts of power, of which 2,470 megawatts of wheeled power and 1,267 megawatts of spill power was transferred to the national grid. The Company has made recent investments through a joint venture arrangement with Power Cogeneration Plant Company (PCPC), which brought online a total of 885 megawatts of capacity to generation facilities at Abqaiq, Hawiyah, and Ras Tanura.

The Company expects its power generation capacity to grow to 12.20 gigawatts by 2020 as a result of ongoing investments, furthering its aims to transition the Company's power requirements from third parties to self-sufficiency in electricity and cogenerated steam, as well as reduce consumption of higher value liquids for power generation. These investments include two power plants currently under construction. The Company anticipates that its power business will continue to pursue other growth opportunities.

### **Geographic Locations and Operations**

The Company's head office is located in the city of Dhahran in the Kingdom. The Company operates in eight locations within the Kingdom and 20 locations overseas.

### **Technology**

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.

As at 31 December 2018, 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.

### **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 reviews and adapts data security policies, manages 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 breach 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 *"Risk Factors—Risk Factors Relating to the Company—The Company's operations are dependent on the reliability and security of its IT systems"*.

## **Environment, Health and Safety**

### ***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, 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 and corporate policies. In addition, for its operations within the Kingdom, the Company strives to comply with the Kingdom's regulations and regional protocols. Where there are no established national regulations in the Kingdom, the Company has developed environmental standards aligned with many industry best practices and compatible with the Kingdom's environmental protection objectives. The Company aims to ensure that its facilities are designed, constructed, and operated in compliance with these standards. The Company applies these standards from the early stages of a project's site selection and engineering designs through its operational life cycle. Environmental scrutiny in the form of monitoring programmes, scheduled compliance and performance assessments and environmental studies forms part of a broader process aimed at identifying environmental gaps, as well as performance enhancement opportunities. Each subsidiary is responsible for establishing its own environmental compliance framework and monitoring ongoing compliance.

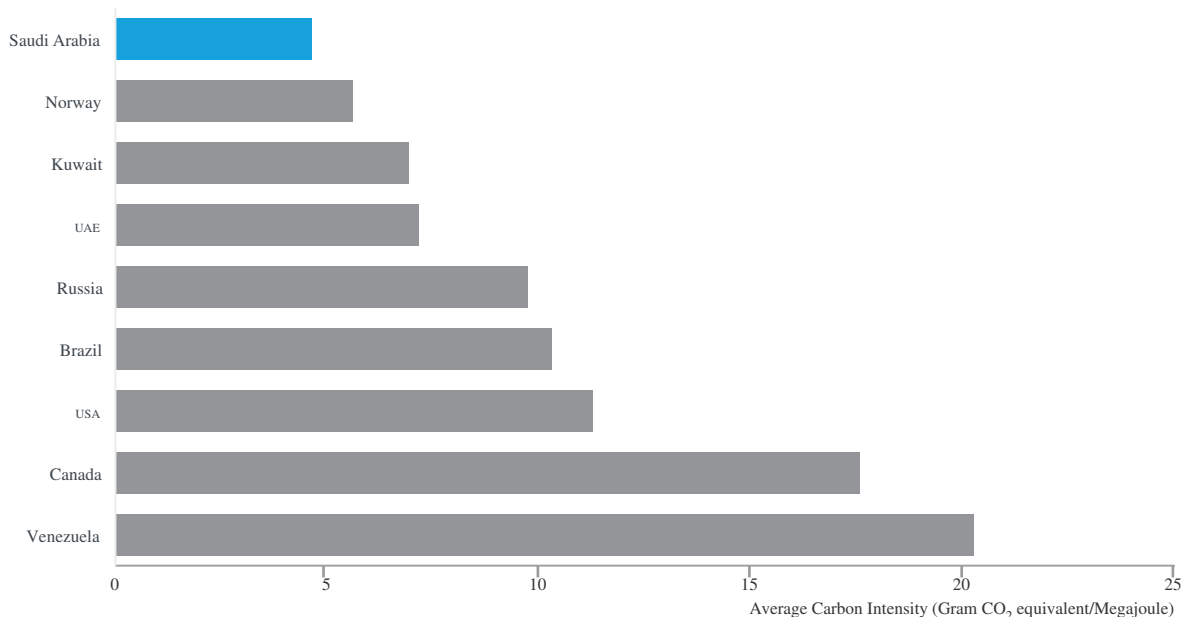
The Company's EMP provides a framework for achieving the Company's environmental objectives in the Kingdom. As at 31 December 2018, it included 36 capital projects aimed at reducing emissions of air pollutants, maximising wastewater reuse and enhancing the quality of transportation fuels. Since inception of the EMP in 2001, the Company has invested over SAR 45 billion to reduce the environmental impact of its operations within the Kingdom. Future expenditures include capital projects relating to the clean fuels complex and diesel hydrotreater unit at the Ras Tanura Refinery, vapour recovery facilities at the Ras Tanura Sea Islands and sulphur recovery unit upgrades and other remediation measures at certain refineries and gas plants, including the Riyadh, Ras Tanura and Yanbu' refineries and the Berri, Khursaniyah and Wasit gas plants. 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 *"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. Releases sometimes occur due to downstream facilities failing to properly control and operate dewatering processes at tanks that receive large quantities of water from upstream activities or due to issues stemming from hydrocarbon-incompatible sealants. The Company has measures in place to prevent releases that might occur and seeks 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 2007, the Company has implemented a groundwater remediation programme to systematically and consistently identify and implement clean-up measures 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 2016, the Company completed a chemical spill risk assessment for its wholly owned operations in the Kingdom. The assessment evaluated risks associated with potential hazardous chemical spills for onshore and offshore wholly owned operations within the Kingdom.

As at 31 December 2018, the Company and its consolidated subsidiaries established a provision of SAR 849 million (\$226.4 million) 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 primary wholly owned sites within the Kingdom covered by this reserve include several oily ponds, the Al-Hasa bulk plant, the Duba bulk plant, the Jeddah refinery (which was closed in November 2017), the Tabuk bulk plant and the Yanbu' terminal. The Company's investigation and remediation of contamination associated with its wholly owned facilities in the Kingdom is primarily undertaken voluntarily.

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. According to an article published in the 31 August 2018 edition of Science Magazine, the Kingdom's volume weighted average crude oil upstream GHG intensity in 2015 ranked second lowest among the 50 countries analysed. Two of the 24 authors of such article received funding from a subsidiary of the Issuer 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 2018 edition of Science Magazine.



### ***GHG Emissions Management***

In 2018, 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 Lead Detection and Repair programme which includes companywide methane emissions was adopted in 2017. The programme prioritises actions at operating facilities and includes efforts to develop and deploy new, more efficient technologies to detect and reduce facility emissions.

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.

### ***Renewable Energy and Sustainability Projects***

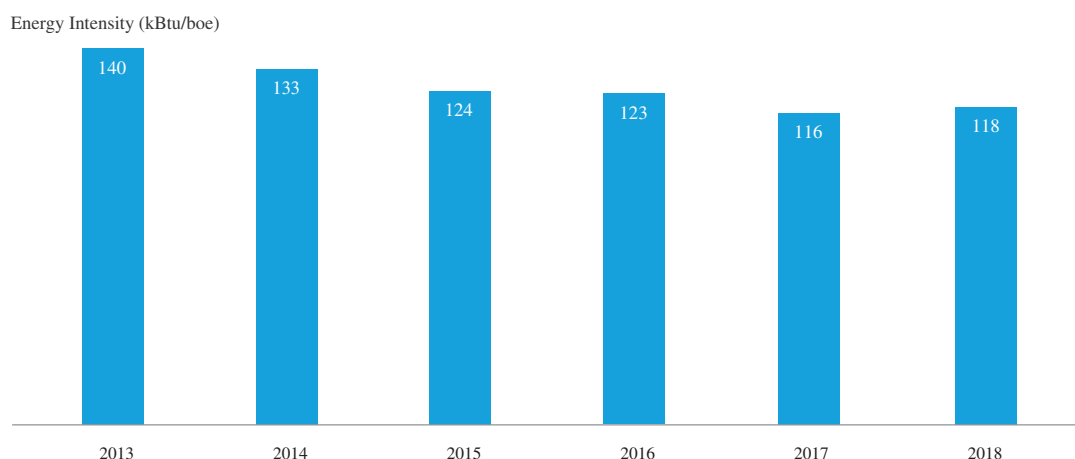
The Company participates in the Kingdom's renewable energy programme to introduce new fuels and renewable resources to the Kingdom's energy mix. For example, in January 2017, the Company installed the Kingdom's first wind turbine at the Turaif bulk plant, which has reduced the use of liquids for power generation at the plant, saving more than 18,000 boe annually.

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 conducted the first industrial estimate of carbon sequestration in the marine environment.

### ***Energy Efficiency***

As part of its energy efficiency efforts, the Company aims to monitor the total quantity of energy consumed in its oil and gas operations and other business activities, optimise energy consumption in existing facilities through implementation of energy efficiency initiatives, design new facilities to be energy efficient, and influence and promote energy efficiency at a national level. The Company's total energy use was 123.2 kBTU per boe, 116.3 kBTU per boe and 118.4 kBTU per boe in 2016, 2017 and 2018, respectively.

The following chart illustrates the total energy use of Saudi Arabian Oil Company and its subsidiaries located in the Kingdom from 2013 to 2018.



In addition, the Company aims to achieve self-sufficiency in electrical power for its operating plants through cogeneration. By utilising the waste heat from its facilities, the Company generates electricity to run its operations, lowers emissions and reduces the Company's impact on the Kingdom's power grid. The Company has made recent investments through a joint venture arrangement with Power Cogeneration Plant Company (PCPC), which brought online a total of 885 megawatts of capacity to generation facilities at Abqaiq, Hawiyah and Ras Tanura.

### ***Water Management***

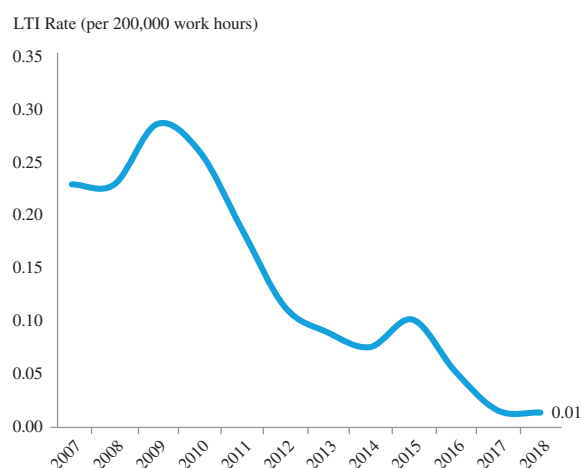
The Company monitors the total volume of water used in its operations in the Kingdom, including treated and desalinated seawater, groundwater and reused wastewater. The Company's water conservation strategy for its operations in the Kingdom includes using flow meters, using wastewater in a variety of applications, assessing conservation opportunities, implementing best practices and promoting water conservation awareness. In 2018, the Company reused 75% of its sanitary wastewater and 80% of its produced water.

### ***Health and Safety***

An enterprise-wide, organisationally driven focus on health and safety supports one of the Company's core values and is overseen by the Company's Health, Safety, Security and Environmental Committee, which is led by its CEO and other selected members of its Management Committee. The Company's Operational Excellence and Safety Management System ("SMS") provides a framework for managers and describes how they can implement the system to fulfil their safety and loss prevention obligations. The Company continually works to improve the SMS and its underlying programmes, processes, procedures, rules, standards, and instructions in order to protect



its workforce and facilities while adapting to market and operating conditions. From 2007 to 2018, the lost time injury (“**LTI**”) rate fell from 0.23 per 200,000 work hours to 0.01 per 200,000 work hours. The following chart shows the Company’s LTI rate from 2007 to 2018.



## Relationship with the Kingdom

### *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. 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. Production at MSC beyond one year would require additional capital and operating expenditures. The Company’s MSC enables it to respond rapidly to changes in supply and demand. As at 31 December 2018, the Company’s MSC was 12.0 million barrels of crude oil per day.

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 6/4/1439 in the Hijri calendar (corresponding to 24 December 2017), 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 “*Material Agreements—The Concession*”.

The Kingdom is a member state of OPEC and is represented at OPEC meetings by the Minister of MEIM, who is also the Chairman of the Company’s Board of Directors. 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 2016 OPEC conference, the Kingdom decided to establish production levels for 2017 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 2016 production target through the June 2018 OPEC conference, when OPEC member countries called for an increase to aggregate production levels. After the December 2018 OPEC Conference, the Kingdom indicated that, beginning in January 2019 and continuing for six months, it would reduce its crude oil production to an average of 10.1 million barrels per day. For additional information concerning the Company’s relationship with the Government, see “*Related Party Transactions*”.

## ***The Concession***

The Arabian American Oil Company Concession Agreement was ratified on 4/2/1352 in the Hijri calendar (corresponding to 29 May 1933) 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 the Kingdom, with limited territorial exceptions. Pursuant to Royal Decree No. M/8 dated 4/4/1409 in the Hijri calendar (corresponding to 13 November 1988) approving the Company's original articles, the Company and its wholly owned subsidiaries 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 6/4/1439 in the Hijri calendar (corresponding to 24 December 2017), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy, Industry and Mineral Resources (the "**Minister**"), and the Company entered into the revised Concession Agreement (the "**Concession**"), which replaced and superseded in its entirety the Original Concession on such date (the "**Concession Effective Date**").

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 30<sup>th</sup> 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 60<sup>th</sup> 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. For further details, see "*Material Agreements—The Concession*".

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 "*Material Agreements—The Concession*".

## **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 2017, 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 2017, 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 2017. 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:

- The Government in 2007 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 2009 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 2015, 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 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 to environmental initiatives directly associated with operating its facilities, the Company is establishing 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.
- 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 2011. *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 2018, 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.

For additional information about the Company's corporate citizenship activities, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Consolidated Results of Operations For the Years ended 31 December 2016, 2017 and 2018—Selling, Administrative and General*" and "*Related Party Transactions—Corporate Citizenship*".

### **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 2013, 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. In February 2018, SADCO formed a joint venture with Jacobs Engineering Inc. 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 "*Related Party Transactions—Other Transactions*".

In addition, in furtherance of the Company's aim to develop local supply chains to enhance its long-term commercial interests and reduce procurement costs, on 1 December 2015, the Company launched the 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 its procurement programme can have a positive impact on the Kingdom's economy and support the Company's efforts to improve the efficiency and effectiveness of its supply chain. In 2018, the Company sourced 45% of its material procurement from local suppliers.

The Company also invests in companies with technologies that the Company believes will benefit its core activities. These investments are primarily in companies developing technology to support the upstream and downstream oil and gas, petrochemical, water and renewable energy sectors.

## **Insurance**

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 licenced 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 best practices and subject to customary deductibles, caps, exclusions and limitations.

For further information on the insurance risks of the Company, see *"Risk Factors—Risk Factors Relating to the Company—The Company could be subject to losses from uninsured risks or risks for which its insurance does not cover the entire loss"*.

## **Employees**

As at 31 December 2016, 2017 and 2018, the Issuer and its wholly owned subsidiaries employed 67,718, 70,762 and 76,418 people, respectively.

## **Litigation**

From time to time, the Issuer and its subsidiaries are 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 condition. The Company believes that it is not presently a party to any legal proceedings that, if determined adversely to it, could reasonably be expected, individually or taken together, to have a material adverse effect on the Company's business, financial condition or results of operations.

## ***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.

## ***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.

### ***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 condition and results of operations.

### ***U.S. Justice Against Sponsors of Terrorism Act***

The Justice Against Sponsors of Terrorism Act ("JASTA") became U.S. law in September 2016 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 2001. To date, there have been a number of JASTA related claims against the Kingdom and other defendants, but not against the Company. Any claims against the Company related to JASTA, even if without merit, could adversely impact investor perceptions of the Company.

### ***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 condition and results of operations.



## MATERIAL AGREEMENTS

### **The Concession**

#### ***Background***

On 29 May 1933, the Arabian American Oil Company Concession Agreement was ratified, pursuant to which the Government granted the Company's predecessors certain exclusive rights to explore, drill, recover and treat crude oil and other Hydrocarbons located within the Kingdom, with limited territorial exceptions. Pursuant to a Royal Decree approving the Company's Articles of Associations in 1988, the Company has enjoyed all the privileges and rights provided under the Original Concession. Effective 6/4/1439 in the Hijri calendar (corresponding to 24 December 2017), the Government, represented by the Minister, and the Company entered into the Concession, which replaced and superseded in its entirety the Original Concession on the Concession Effective Date.

#### ***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.

#### ***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.

### ***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.

### ***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.

### ***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.

### ***Royalty and Taxes***

Through 31 December 2016, 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 2016.

Commencing 1 January 2017, 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 marginal 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 MEIM. As at the date of this Base 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 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 in coordination with the Company.

In order to increase gas production to meet the needs of the Kingdom, the Government may exempt the Company partially or fully from 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 MEIM's authority under the Concession, on 25 February 2018, MEIM exempted the Company from royalties on condensate production for five years from 1 January 2018.

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.

#### ***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.

#### ***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.

#### ***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.

#### ***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 specialties in order to fulfil the Company's goals.

#### ***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.

#### ***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.

#### ***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.

### ***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.

### ***Termination***

Except as described under "Force Majeure" above, 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.

### ***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.

### ***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.

### ***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 International Financial Reporting Standards as endorsed by SOCPA, (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 condition.

### ***Agreements with Key Customers***

Other than one customer in 2016 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 2016, 2017 and 2018.

### ***Agreements with Key Suppliers***

The Company purchases materials and services from local and international suppliers. There is no single third party supplier that constituted 5% or more of the Company's total purchases in the years ended 31 December 2016, 2017 and 2018.



## MANAGEMENT

### Board of Directors

The Board of Directors comprises 11 Directors elected by an ordinary general assembly convened in accordance with the Bylaws, except that, pursuant to the Bylaws, the President and Chief Executive Officer has a permanent membership on the Board of Directors without being subject to election or any further action by the general assembly. 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 for a period not to exceed three years in the Hijri calendar, subject to renewal or extension. There is no limit on the number of terms that a Director may serve on the Board.

The Company's Bylaws 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. The current Board was formed by virtue of Council of Ministers Resolution No. 180, dated 1/4/1439 in the Hijri calendar (corresponding to 19 December 2017). 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 MEIM 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 8/8/1439 in the Hijri calendar (corresponding to 24 April 2018) appointing the Board and designating five of the Board members as independent directors: Mr. Moody-Stuart, Mr. Liveris, Mr. Gould, Ms. Elsenhans and Mr. Cella.

The business address of each Director is the registered address of the Issuer. There are no existing or potential conflicts of interest between any duties of any Director towards the Issuer and the Director's private interests and/or other duties.

The following table sets forth the current members of the Board of Directors:

Name	Position	Independent	Date of Appointment to the Board <sup>(1)</sup>
H.E. Khalid A. Al Falih	Chairman	No	29 October 2004 <sup>(2)</sup>
H.E. Ibrahim A. Al-Assaf	Deputy Chairman	No	2 January 1999 <sup>(3)</sup>
H.E. Mohammed A. Al Jadaan	Director	No	24 April 2018
H.E. Mohammad M. Al-Tuwaijri	Director	No	24 April 2018
H.E. Yasir O. Al-Rumayyan	Director	No	20 June 2016
Sir Mark Moody-Stuart	Director	Yes	27 September 2007
Mr. Andrew N. Liveris	Director	Yes	1 July 2018
Mr. Andrew F. J. Gould	Director	Yes	23 July 2013
Ms. Lynn Laverty Elsenhans	Director	Yes	24 April 2018
Mr. Peter Cella	Director	Yes	24 April 2018
Mr. Amin H. Nasser	Director, President and Chief Executive Officer	No	25 August 2010 <sup>(4)</sup>

(1) Pursuant to Council of Ministers Resolution No. 428 dated 8/8/1439 in the Hijri calendar (corresponding to 24 April 2018), all Directors were appointed or reappointed to the Board on 24 April 2018 except for Mr. Liveris who was initially appointed to the Board on 1 July 2018.

(2) H.E. Khalid A. Al-Falih was appointed Chairman of the Board of Directors on 29 April 2015.

(3) H.E. Ibrahim A. Al-Assaf was appointed Deputy Chairman of the Board of Directors on 24 April 2018.

(4) Mr. Nasser has been a Director since 25 August 2010 and has served as President and CEO of the Company since 29 April 2015.

### ***H.E. Khalid A. Al-Falih, Chairman***

H.E. Khalid A. Al-Falih, 60, is the Chairman of the Board of Directors. H.E. Al-Falih has served as Chairman since April 2015 and as a Director since 2004. Currently, he also serves as Minister of Energy, Industry and Mineral Resources of the Kingdom and as a member of the Council of Ministers. From 2015 to 2016, H.E. Al-Falih served as the Minister of Health of the Kingdom. From 2009 to 2015, he served as President and CEO of the Company as well as a member of the Supreme Council for Petroleum and Mineral Affairs.

H.E. Al-Falih also serves as Chairman of the following entities: the Board of Trustees of KAUST and KAPSARC, the Boards of Directors of the Saudi Arabian Mining Company, the Royal Commission for Jubail and Yanbu', the Saudi Industrial Development Fund, the Saudi Authority of Industrial Cities and Areas of

Technology, the Saudi Geological Survey Authority, the King Abdulaziz City for Science and Technology, the Saudi Export Development Authority and the King Abdullah City for Atomic and Renewable Energy. H.E. Al-Falih also serves as a Director on the Board of the PIF, GAMI and SAMI. He is also an international fellow for the Royal Academy of Engineering.

H.E. Al-Falih has also served in the following capacities:

- A member of the World Economic Forum International Business Council from 2009 to 2015;
- a member of the Board of Trustees of American University of Sharjah from 2014 to 2017;
- a member of the Presidential CEO Advisory Board at Massachusetts Institute of Technology from 2014 to 2016;
- a member of the Asia Business Council from 2010 to 2016; and
- a member and Vice Chairman of the International Advisory Board of KFUPM Engineering Department as well as a member of the Board of Trustees of Prince Mohammed bin Fahd University and the JPMorgan International Council from 2010 to 2015.

H.E. Al-Falih earned an MBA from KFUPM in 1991 and a B.S. in Mechanical Engineering from Texas A&M University in 1982.

***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 1999. Currently, H.E. Dr. Al-Assaf is the Minister of Foreign Affairs of the Kingdom and a member of the Council of Ministers as well as a Director on the Board of the PIF. He also serves as Governor of the International Monetary Fund, the Arab Monetary Fund and the Chairman of the Board of Governors of the Islamic Development Bank.

H.E. Dr. Al-Assaf has also served in the following capacities:

- Minister of State of the Kingdom from 2016 to 2018;
- Minister of Finance of the Kingdom from 1996 to 2016; and
- Chairman of Sanabil Investments from 2009 to 2017.

H.E. Dr. Al-Assaf earned a Ph.D. in Economics from Colorado State University in 1982, a M.S. in Economics from the University of Denver in 1976 and a B.S. in Economics and Political Science from King Saud University in 1971.

***H.E. Mohammed A. Al-Jadaan, Director***

H.E. Mohammed A. Al-Jadaan, 55, has served as a Director of the Company since 2018. Currently, H.E. Al-Jadaan serves as the Minister of Finance of the Kingdom and is a member of the Council of Ministers. He also serves as Governor of the Islamic Development Bank.

H.E. Al-Jadaan has also served in the following capacities:

- Chairman of the CMA from 2015 to 2016; and
- Co-founder and Managing Partner of Al-Jadaan & Partners Law Firm from 1996 to 2015.

H.E. Al-Jadaan currently serves as a board member for the following organisations:

- Public Investment Fund;
- Military Industries Corporation;
- National Development Fund;
- General Authority for Military Industries;
- International Monetary Fund;
- World Bank Group;
- Arab Fund for Economic and Social Development;
- Arab Monetary Fund;

- Arab Bank for Economic Development in Africa;
- Arab Investment and Export Credit Guarantee Corporation;
- Arab Authority for Agricultural Investment and Development; and
- Asian Infrastructure Investment Bank.

H.E. Al-Jadaan obtained a B.A. in Islamic Sharia and Islamic Economics from Imam Muhammad bin Saud Islamic University in 1986 and earned a Diploma in Legal Studies from the Institute of Public Administration, Riyadh in 1998.

***H.E. Mohammad M. Al-Tuwaijri, Director***

H.E. Mohammad M. Al-Tuwaijri, 52, has served as a Director of the Company since 2018. Currently H.E. Al-Tuwaijri serves as the Minister of Economy and Planning of the Kingdom, a member of the Council of Ministers, a member of the Council for Economic and Development Affairs and a member of the Finance Committee (Royal Court). He also serves as Chairman of the National Center of Privatization and the General Authority for Statistics; as a Director on the Board of the PIF and as the General Secretary of the National Center for Performance Measurement.

H.E. Al-Tuwaijri has also served in the following capacities:

- Deputy Chairman Chief Executive of HSBC Middle East North Africa Regional Head of Global Banking & Markets, MENA from 2010 to 2016; and
- Chief Executive Officer of J.P. Morgan Saudi Arabia from 2007 to 2010.

H.E. Al-Tuwaijri earned a B.A. from the Royal Saudi Air Force in 1986 and an MBA from King Saud University in 1998.

***H.E. Yasir O. Al-Rumayyan, Director***

H.E. Yasir O. Al-Rumayyan, 48, has served as a Director of the Company since 2016. Currently, H.E. Al-Rumayyan serves as an Advisor to the Council of Ministers and as Managing Director and Secretary General of the Board of the PIF. He also serves as Chairman of the Board of the Decision Support Centre under the Royal Court as well as a Director of the Board of the Saudi Industrial Development Fund, the Board of Uber Technologies, Inc. and the Board of SoftBank Group Corp.

H.E. Al-Rumayyan has also served in the following capacities:

- CEO and Director of Saudi Fransi Capital LLC from 2011 to 2015;
- Head of International Brokerage for Saudi Hollandi Bank from 1994 to 2004;
- Director of Tadawul in 2014; and
- Director of Corporate Finance and Issuance, CMA from 2004 to 2011.

H.E. Al-Rumayyan obtained a B.S. in Accounting from King Faisal University in 1993 and completed a General Management Program at Harvard Business School in 2007.

***Sir Mark Moody-Stuart, Director***

Sir Mark Moody-Stuart, 78, has served as an independent Director of the Company since 2007. Currently, Sir Mark serves as Chairman of the Global Compact Foundation and of Zanyn. He also serves as an Advisory Board Member of Envision Energy Ltd., as a member of the Board of St. George's House Windsor and as a member of the International Integrated Reporting Council.

Sir Mark has also served in the following capacities:

- Chairman of the Innovative Vector Control Consortium from 2008 to 2018;
- Vice Chairman of the UN Global Compact from 2006 to 2018;
- a director of Accenture Plc, a general partner of Accenture SCA, from 2001 to 2015;
- Chairman of Hermes Equity Ownership Services from 2007 to 2016;
- Chairman of IVCC from 2008 to 2018;
- Chairman of Royal Dutch Shell from 1998 to 2001; and
- Chairman of Anglo American from 2002 to 2009.

Sir Mark earned a B.S. in Natural Sciences from Cambridge University in 1965 and a Ph.D. in Geology from Cambridge University in 1966. He also received an Honorary Doctorate in Business Administration from Robert Gordon University, Aberdeen in 2000, an Honorary Doctorate of Law from the University of Aberdeen in 2004, and an Honorary Doctorate of Science from Royal Holloway University of London in 2007.

***Mr. Andrew N. Liveris, Director***

Mr. Andrew N. Liveris, 64, has served as an independent Director of the Company since 2018. Currently, Mr. Liveris serves as a Director on the Boards of IBM Corporation, Worley Parsons and Novonix, the Board of Trustees of KAUST and the California Institute of Technology. He also serves on the Board of The Nature Conservancy, and advisor to Teneo and the PIF and as a member of the Advisory Board of L1 Energy, SMBC and Neom. Mr. Liveris served as the Executive Chairman on the Board of DowDuPont Inc. from 2017 to 2018 and as the Chairman, President and CEO of The Dow Chemical Company from 2006 to 2018.

Mr. Liveris obtained a B.S. in Chemical Engineering from the University of Queensland in 1976.

***Mr. Andrew F. J. Gould, Director***

Mr. Andrew F. J. Gould, 72, has served as an independent Director of the Company since 2013. Currently, Mr. Gould is the Chairman of the Board of the International Advisory Board of Boston Consulting Group Centre for Energy Impact and as a Limited Partner of CSL Capital Management LP. He also serves as a Director on the Board of BJ Services and a member of the Board of Trustees at KAUST, a member of the Board of Lambert Energy and a General Partner of CSL Capital Management. From 2012 to 2016, he served as non-executive Chairman and non-executive Director of BG Group plc.

Mr. Gould obtained a B.A. in Economic History from Cardiff University in 1969 and an Honorary Doctorate in Engineering from Colorado School of Mines in 2004. Mr. Gould has also been an Honorary Fellow of Cardiff University since 2005. He qualified as a Chartered Accountant with Ernst & Young and The Institute of Chartered Accountants in England and Wales in 1972.

***Ms. Lynn Laverty Elsenhans, Director***

Ms. Lynn Laverty Elsenhans, 62, has served as an independent Director of the Company since 2018. Currently, Ms. Elsenhans serves as a Director on the Board of Baker Hughes, a GE Company and GlaxoSmithKline PLC.

Ms. Elsenhans has also served in the following capacities:

- a director of Baker Hughes, Inc. from 2012 to 2017;
- a director of Flowserve Corporation from 2014 to 2017;
- a director of International Paper Company from 2007 to 2012;
- President and CEO of Sunoco, Inc. from 2008 to 2012, becoming Chairwoman in 2009; and
- Chairwoman of Sunoco Logistics Partners from 2008-2012, becoming CEO in 2010.

Ms. Elsenhans earned a B.A. in Applied Mathematics from Rice University in 1978 and an MBA from Harvard University in 1980.

***Mr. Peter L. Cella, Director***

Mr. Peter L. Cella, 61, has served as an independent Director of the Company since 2018. Currently, Mr. Cella serves as a Director on the Board of Frontdoor, Inter Pipeline and privately-held ClockSpring|SRI. From 2017 to 2018, Mr. Cella served as a Director on the Board of ServiceMaster Global Holdings. From 2011 to 2017, he served as President and CEO and as a Director on the Board of Chevron Phillips Chemical Company. He also served as a Director on the Board of the American Chemistry Council and Junior Achievement of Southeast Texas from 2011 to 2017. From 2006 to 2011, he served as Senior Vice President for North America Petrochemicals for BASF Corporation.

Mr. Cella obtained a B.S. degree in Finance from the University of Illinois at Urbana-Champaign in 1979 and an MBA from Northwestern University in 1981.

***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 2015. Mr. Nasser has been a Director since 2010. Currently, Mr. Nasser is a member of the International Advisory Board of KFUPM, the Board of Trustees of KAUST, the World Economic Forum's International Business Council, the International

Advisory Board of the Society of Petroleum Engineers, the Presidential CEO Advisory Board at Massachusetts Institute of Technology, the JP Morgan International Council and the Dhahran Techno Valley Company. 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 2010 to 2015 and VP of Petroleum Engineering and Development from 2006 to 2007.

Mr. Nasser earned a B.S. in Petroleum Engineering from KFUPM in 1982. He also completed the Senior Executive Program at Columbia University in 2002, the Saudi Aramco Global Business Programme in 2000 and the Saudi Aramco Management Development Seminar in Washington, D.C. in 1999.

## **Committees of the Board of Directors**

### ***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 systems; (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.

The Audit Committee comprises the following members as at the date of this Base Prospectus:

<u>Name</u>	<u>Role</u>
Mr. Andrew F. J. Gould . . . . .	Chair
H.E. Mohammed A. Al-Jadaan . . . . .	Member
H.E. Yasir O. Al-Rumayyan . . . . .	Member
Ms. Lynn Laverty Elsenhans . . . . .	Member
Mr. Peter L. Cella . . . . .	Member

### ***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.

The Nomination Committee comprises the following members as at the date of this Base Prospectus:

<u>Name</u>	<u>Role</u>
Mr. Andrew N. Liveris . . . . .	Chair
H.E. Khalid A. Al-Falih . . . . .	Member
H.E. Ibrahim A. Al-Assaf . . . . .	Member
H.E. Mohammad M. Al-Tuwaijri . . . . .	Member
Sir Mark Moody-Stuart . . . . .	Member

### ***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.



The Compensation Committee comprises the following members as at the date of this Base Prospectus:

<u>Name</u>	<u>Role</u>
Sir Mark Moody-Stuart	Chair
Mr. Andrew F. J. Gould	Member
H.E. Mohammed A. Al-Jadaan	Member
H.E. Yasir O. Al-Rumayyan	Member
Mr. Andrew N. Liveris	Member

#### ***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.

The Risk and HSE Committee comprises the following members as at the date of this Base Prospectus:

<u>Name</u>	<u>Role</u>
Mr. Peter L. Cella	Chair
H.E. Khalid A. Al-Falih	Member
H.E. Mohammad M. Al-Tuwaijri	Member
Ms. Lynn Laverty Elsenhans	Member
Mr. Amin H. Nasser	Member

#### **Senior Management**

The following table sets forth the Senior Executives as at the date of this Base Prospectus:

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>
Mr. Amin H. Nasser	Director, President and Chief Executive Officer	9 January 2015 <sup>(1)</sup>
Mr. Nabeel A. Al Mansour	Senior Vice President, General Counsel and Corporate Secretary	1 June 2016
Mr. Khalid Al-Dabbagh	Senior Vice President of Finance, Strategy and Development	1 September 2018
Mr. Ahmad A. Al-Sa'adi	Senior Vice President of Technical Services	1 January 2016
Mr. Mohammed Y. Al Qahtani	Senior Vice President, Upstream	1 January 2016
Mr. Muhammad M. Al-Saggaf	Senior Vice President, Operations and Business Services	1 January 2016
Mr. Abdulaziz M. Al-Judaimi	Senior Vice President, Downstream	5 January 2017

(1) Denotes date of appointment as President and Chief Executive Officer.

#### ***Mr. Amin H. Nasser***

See “—Board of Directors—Mr. Amin H. Nasser, Director, President and Chief Executive Officer”.

#### ***Mr. Nabeel A. Al Mansour, Senior Vice President General Counsel and Corporate Secretary***

Mr. Nabeel A. Al Mansour, 51, has served as Senior Vice President, General Counsel and Corporate Secretary since 2017. 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:

- General Counsel and Corporate Secretary from 2016 to 2017;
- Deputy General Counsel from 2015 to 2016;
- Executive Director and Vice President of Procurement and Supply Chain Management from 2014 to 2015; and
- Associate General Counsel from 2011 to 2014.

Mr. Al Mansour earned a J.D. from Oklahoma City University in 1999 and a B.S. in Systems Engineering from KFUPM in 1990. In addition, he completed a General Management Program at Harvard Business School in 2008.

***Mr. Khalid Al-Dabbagh, Senior Vice President, Finance, Strategy and Development***

Mr. Khalid Al-Dabbagh, 57, has served as Senior Vice President of Finance, Strategy and Development since 2018. 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 2012 to 2018;
- Treasurer from 2010 to 2012; and
- Director of Joint Venture Development from 2006 to 2008.

Mr. Al-Dabbagh earned a bachelor's degree in industrial engineering from the University of Toledo in 1985. In addition, he has completed a number of executive leadership programmes, including the Senior Executive Programme at London Business School.

***Mr. Ahmad A. Al Sa'adi, Senior Vice President of Technical Services***

Mr. Ahmad A. Al Sa'adi, 59, has served as Senior Vice President of Technical Services since 2016. In this role, Mr. Al Sa'adi leads the Company's projects with respect to engineering, IT, materials supply and community, infrastructure and public projects. Currently, Mr. Al Sa'adi serves as a member of the Board of the National Industrial Cluster Development Program.

Mr. Al Sa'adi also has served in the following capacities:

- Vice President of Technical Services from 2015 to 2016; and
- Vice President of Gas Operations from 2010 to 2015.

Mr. Al Sa'adi obtained a B.S. in Chemical Engineering (Applied) from KFUPM in 1981 and he completed the Management Development Program at Harvard Business School in 2000.

***Mr. Mohammed Y. Al Qahtani, Senior Vice President, Upstream***

Mr. Mohammed Y. Al Qahtani, 52, has served as Senior Vice President of Upstream since 2016. 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 also is 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 2014 to 2015;
- Senior Vice President of Operations and Business Services in 2014;
- Vice President of Saudi Aramco Affairs from 2013 to 2014; and
- Vice President of Petroleum Engineering and Development from 2011 to 2013.

Mr. Al Qahtani earned both a Ph.D. and M.S. in Petroleum Engineering from the University of Southern California in 1996 and 1992, respectively, and a B.S. in Petroleum Engineering from KFUPM in 1988. In addition, he completed the IMD Programme for Executive Development in Lausanne, Switzerland.

***Mr. Muhammad M. Al-Saggaf, Senior Vice President, Operations and Business Services***

Mr. Muhammad M. Al-Saggaf, 51, has served as Senior Vice President of Operations and Business Services since 2016. Mr. Al-Saggaf also has served in the following capacities:

- Acting Senior Vice President of Operations and Business Services from 2014 to 2016;
- President of KAPSARC from 2012 to 2014; and
- General Manager of Strategic Transformation Office from 2011 to 2012.

Mr. Al-Saggaf earned an MBA from KFUPM in 2005, an M.S. and Ph.D. in Geophysics from the Massachusetts Institute of Technology in 1996 and 2000, respectively, and a B.S. in Mathematics from KFUPM in 1989. In addition, he completed the Management Development Program at Harvard Business School in 2005.

***Mr. Abdulaziz M. Al-Judaimi, Senior Vice President, Downstream***

Mr. Abdulaziz M. Al-Judaimi, 56, has served as Senior Vice President of Downstream since 2017. Mr. Al-Judaimi also has served in the following capacities:

- Acting Senior Vice President of Downstream from 2016 to 2017;
- Vice President of Power Systems from 2014 to 2017;
- Vice President of Corporate Planning in 2014;
- Vice President of Power Systems from 2013 to 2014;
- Vice President of Chemicals from 2010 to 2013;
- Director of SADARA from 2014 to 2016; and
- Shareholder Representative of Saudi Electricity Company from 2014 to 2015.

Mr. Al-Judaimi earned an MBA from Massachusetts Institute of Technology's Sloan School of Management in 2001 and a B.S. in Petroleum Engineering from KFUPM in 1983.

**Compensation of Directors and Senior Executives**

As required by Saudi law, the Company entered into employment agreements with its employees who constitute its Senior Management when the relevant person was initially hired 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. In general, under these contracts, members of Senior Management are entitled, in addition to their regular salary and allowances, to incentive award annual bonuses based on the Company's annual performance. Each non-executive Company Director is paid a regular director fee for his or her service. For additional information, see Note 30(c) to the 2018 Financial Statements.

## RELATED PARTY TRANSACTIONS

### The Concession

For a summary of the Concession, see “*Material Agreements—The Concession*”.

### 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 1980s to 2016, 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 2016, 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 2017, the Government has 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 2017 and 2018 was SAR 22.4 billion and SAR 32.7 billion, respectively. See “*Business—Relationship with the Kingdom*”.

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 “*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons*”. As at 1 January 2017, the Government implemented an equalisation mechanism to compensate the Company for revenue directly foregone as a result of the Company’s compliance with the mandates related to crude oil, kerosene, diesel, heavy fuel oil and gasoline. For these products, the Company is entitled to compensation from the Government in an amount equal to the cost of revenues directly foregone 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 2017 and 2018, 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 2016 as the price equalisation mechanism introduced by the Government was effective from 1 January 2017.

Effective as from 27 March 2018, 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 licensee 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 licensee must pay the Government monthly an amount equal to such positive excess. See “*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Gas Pricing*”.

### Proposed Acquisition of Equity Interest in SABIC

On 27 March 2019, the Company announced that it had 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. See “*Overview—Proposed Acquisition of an Equity Interest in SABIC*”. In connection with the acquisition, the Company also entered into an agreement with SABIC pursuant to which SABIC agreed, among other things, to provide information to the Company about SABIC and to facilitate certain matters required to complete the transaction.

### 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 arms-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 2018.

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) under these agreements in 2016, 2017 and 2018, 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 and gas 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 2018, 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 2016, for which it received no consideration, and recognised revenue of SAR 12,405 million and SAR 7,268 million (\$1,938 million) under these agreements in 2017 and 2018, respectively. As part of the fiscal regime changes, the Company expects that the future provision of products to Saudi Electricity Company for which the Company receives no consideration will be settled pursuant to the Government guarantee. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors Affecting the Company's Results of Operations and Financial Condition—Fiscal Regime Changes—Government guarantee*".

In addition, for the years ended 31 December 2016, 2017 and 2018 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 and SAR 408.8 million (\$109 million), respectively.

#### *Sales to Government Branches and Other Related Parties*

For the years ended 31 December 2016, 2017 and 2018, 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. For the year ended 31 December 2016, 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 31 December 2017 and 2018, the Company provided crude oil, gas and refined products and certain services with a value of SAR 9,165 million and SAR 10,913 million (\$2,910 million), respectively, for which it received compensation. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Fiscal Regime Changes—Government guarantee*".

#### *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 arms' 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 2016, 2017 and 2018, respectively.

The Company purchases electricity from the Saudi Electricity Company. Prices for such purchases are based on arms-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 2016, 2017 and 2018, respectively.

#### **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 2017, 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 "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Consolidated Results of Operations For the Years ended 31 December 2016, 2017 and 2018—Selling, Administrative and General*" and "*Business—Corporate Citizenship*".

### **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. However, such reimbursement only takes into account the Company's out-of-pocket expenses. 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 2016, 2017 and 2018, the Company has been reimbursed approximately SAR 12,720 million, SAR 4,208 million and SAR 5,648 million (\$1,506 million) in connection with such projects. The Government directs the Company to deduct these reimbursement payments from its obligations to the Government. In accordance with this directive, each month of costs incurred by the Company for such projects is deducted from its income tax obligations and are considered payment of income tax obligations in the Company's Financial Statements.

In February 2018, SADCO, a wholly owned subsidiary of the Company, formed a joint venture with Jacobs Engineering Inc. 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 2018 the Company began constructing the infrastructure for King Salman Energy Park (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 currently provides a variety of services to the Government for which it does not receive 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.

### **Transactions with Directors and Senior Executives**

Other than with respect to compensation arrangements, as at the date of this Base 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 material interest or were not entered into on an arm's length basis. For compensation related transactions with the Company's Directors and Senior Executives, see "*Management—Compensation of Directors and Senior Executives*".

### **Approval of Related Party Transactions**

The Issuer 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 Issuer 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.

## REGULATION OF THE OIL AND GAS INDUSTRY IN THE KINGDOM

### Overview of Governance, Legal Foundations and Economic Principles

#### *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 1932, with the issuance of Royal Decree No. 2716, dated 17/5/1351 in the Hijri calendar (corresponding to 23 September 1932). 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 2015.

The Basic Law of the Kingdom (the “**Basic Law**”) was promulgated under Royal Order No. A/90, dated 27/8/1412 in the Hijri calendar (corresponding to 1 March 1992) 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, 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 in 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.

#### *Legal Foundations*

Saudi law is derived from the Basic Law and legislation 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 economy 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.

### **Law on Hydrocarbons**

#### *Overview*

The Hydrocarbons Law was enacted by Royal Decree No. M/37, dated 2/4/1439 in the Hijri calendar (corresponding to 20 December 2017) and applies to hydrocarbons, hydrocarbon resources and the hydrocarbon operations existing within the territory of the Kingdom.

### ***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.

### ***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.

### ***Supervision and Implementation of the Hydrocarbons Law***

MEIM 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. MEIM acts as a liaison between relevant bodies and the licensee in relation to a licence. MEIM is also responsible for preparing and overseeing the national strategies and policies related to hydrocarbons to ensure the implementation, development and well-use of hydrocarbon resources, and conservation of the Kingdom's hydrocarbon reserves for future generations.

### ***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.

### ***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 and the Hydrocarbons Law and regulations, and in an economically feasible and efficient manner that promotes the long-term productivity of reservoirs in the licence area and supports the prudent stewardship for hydrocarbon resources and hydrocarbons, and limits their abandonment.

### ***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, and 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.

## **Law of Gas Supplies and Pricing**

### ***Overview***

The GSPR was enacted by Royal Decree No. M/36, dated 25/6/1424 in the Hijri calendar (corresponding to 23 August 2003), and applies to the activities of transmission, processing, fractionation, storage, local distribution, aggregation, 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**”).

### ***Licences***

Pursuant to the GSPR, a licence is required for the conduct of any Regulated Activity. In considering an application for a licence, MEIM 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.

### ***The Company as Aggregators and Tariffs***

Under the GSPR, the Company acts as the aggregator of Regulated Hydrocarbons which access the MGS.

MEIM 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.

### ***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 MEIM. 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.

### ***Allocation of Natural Gas and NGLs***

The necessary allocation to users of Regulated Hydrocarbons is effected by the Ministry pursuant to criteria set by MEIM 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.

## **Regulated Domestic Pricing of Certain Hydrocarbons**

### ***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 some refined products (kerosene, diesel, heavy fuel oil and gasoline) (the “**Regulated Products**”).

### ***Liquids Price Equalisation***

Pursuant to the Council of Ministers Resolution No. 406, dated 28/6/1438 in the Hijri calendar (corresponding to 27 March 2017), and the Ministerial Resolutions issued by MEIM and confirmed by the Ministry of Finance, No. 1439/2465/1, dated 10/4/1439 in the Hijri calendar (corresponding to 28 December 2017) (the “**Liquids Price Equalisation**”), when the Company sells any crude oil, kerosene, diesel, heavy fuel oil or gasoline (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 foregone as a result of the Company’s compliance with the Kingdom’s current pricing mandates. In the event the equalisation price is less than the regulated price, the difference would be due from the Company to the Government.

MEIM 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 MEIM 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 MEIM 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 MEIM with a statement detailing the total amount due to the Company in a monthly period no later than 60 days after the relevant monthly period. 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.

### ***Gas Pricing***

From time to time, the Kingdom establishes minimum prices for the domestic sale of gas hydrocarbons (the “**Domestic Price**”), including those for natural gas, ethane and NGLs (each a “**Regulated Gas Product**”). Pursuant to the Council of Ministers Resolution No. 370, dated 10/7/1439 in the Hijri calendar (corresponding to 27 March 2018), and the Ministerial Resolutions issued by MEIM, in agreement with the Ministry of Finance, No. 01-5928-1439, dated as at 27/8/1439 in the Hijri calendar (corresponding to 13 May 2018), the Kingdom establishes the minimum 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). In order to ensure such rate of return, the Domestic Price for any Regulated Gas Product set by the Government, excluding any Government fees or other value added taxes, must not be lower than the Blended Price for a Regulated Gas Product. Alternatively, if the Domestic Price set by the Government exceeds the Blended Price for a Regulated Gas Product, excluding any Government fees or value added taxes, the licencee is required pay to the Government monthly an amount equal to such positive excess.

The Blended Price for each Regulated Gas Product is a compound price that is determined by MEIM based on a compilation of gas projects approved by MEIM for the exploration, development, production, treatment, storage, transmission, sale or transfer of Regulated Gas Products by gas producers on an ongoing basis. Each individual gas project establishes assumptions as to the total future cash flows, including tax, operation expenses, and investment costs, of such gas project and further establishes such gas project contribution to the overall Blended Price set by MEIM to ensure that each relevant gas producer achieves the rate of return for that gas project.

For each Regulated Gas Product, the Blended Prices (and the underlying gas projects that establish the Blended Prices) are subject to change. In addition, the Blended Prices and the individual prices for each gas project are subject to review upon changes to the laws and regulations affecting such prices, for example, the calculation of royalties, the income tax law imposed on the Company, or other payments to the Government that may affect the prices.

### ***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 2017, the Government guaranteed amounts due to the Company from these entities, subject to a limit on the amount of the guarantee for each entity, which have been set for 2018 and 2019. The aggregate amount guaranteed in 2017 and 2018 was SAR 22.4 billion and SAR 32.7 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), MEIM 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 amount of taxes are inadequate, any other amounts the Company owes to the Government.



## Other Relevant Laws and Regulations

### *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 and the High Commission for Industrial Security. 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 23/8/1426 in the Hijri calendar (corresponding to 27 September 2005), as amended, and Part 5 of the Social Insurance Law, enacted by Royal Decree No. M/22 dated 6/9/1389 in the Hijri calendar (corresponding to 15 October 1969) as amended by Royal Decree No. M/33 dated 3/9/1421 in the Hijri calendar (corresponding to 29 November 2000).

### *Environmental Regulations*

Under the General Environmental Law, enacted by Royal Decree No. M/34, dated 28/7/1422 in the Hijri calendar (corresponding to 16 October 2001), and its implementing regulations issued by the Ministry of Defence Resolution No. 1/1/4/5/1/924 dated 3/8/1424 in the Hijri calendar (corresponding to 30 September 2003) as amended by the Ministry of Defence Resolution No. 1/1/4/5/2391 dated 8/5/1426 in the Hijri calendar (corresponding to 15 June 2005), the General Authority of Meteorology and Environmental Protection (“GAMEP”) as well as 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 and/or 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; and/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 1999). 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 by administering its own set of rules in relation to such areas.

### *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 12/10/1432 in the Hijri calendar (corresponding to 10 September 2011), based on Council of Ministers Resolution No. 50, dated 21/5/1415 in the Hijri calendar (corresponding to 27 October 1994), which was applied as at 12/10/1432 in the Hijri calendar (corresponding to 10 September 2011). 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 2018, 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 recently approved a new amendment to the Nitaqat Programme under the “Nitaqat Mawzon” in order to improve market’s performance and development

and to eliminate non-productive nationalisation. It was intended to come into effect on 12/3/1438 in the Hijri calendar (corresponding to 11 December 2016), 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.

## FORM OF THE NOTES

The Notes of each Series will be issued in registered form both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A.

The Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to persons who are not U.S. persons outside the United States, will initially be represented by a Global Note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to a Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 (*Transfers of Notes*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Notes of a Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions to persons reasonably believed to be QIBs. The Notes of a Tranche sold to QIBs will be represented by a Global Note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note of such Tranche, a “**Global Note**”).

Global Notes will either: (a) be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company (“**DTC**”); or (b) be deposited with a common depository for, and registered in the name of a nominee of such common depository, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1 (*Form, Denomination and Title*)) as the registered holder of the Global Notes. All amounts payable to DTC or its nominee as registered holder of a Global Note in respect of Notes denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the relevant exchange agent on behalf of DTC or its nominee for conversion into and payment in U.S. Dollars in accordance with the provisions of the Agency Agreement. None of the Issuer, any Agent or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.2 (*Payments of principal and interest*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes without interest coupons attached only upon the occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that: (a) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes or DTC has ceased to constitute a clearing agency registered under the Exchange Act and, in either case, no alternative clearing system satisfactory to the Trustee is available; (b) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available; or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Note in definitive form and a certificate to that effect signed by two authorised signatories of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 12 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (c) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

## **Transfer of Interests**

Interests in a Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Note. No beneficial owner of an interest in a Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. The Notes are subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions. See “*Transfer Restrictions*”.

## **General**

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CUSIP number, which are different from the Common Code, ISIN and CUSIP assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as may be approved by the Issuer and the Trustee.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new Base Prospectus or a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which, subject to completion in accordance with the provisions of Part A of the applicable Final Terms, will be incorporated by reference into each Global Note (as defined below) and each Definitive Note (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such terms and conditions. The applicable Final Terms in relation to any Tranche (as defined below) of Notes shall complete the following terms and conditions for the purposes of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and Definitive Note. Reference should be made to “Form of Final Terms” for a description of the content of the Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Saudi Arabian Oil Company (the “**Issuer**”) under a Global Medium Term Note Programme (the “**Programme**”) established by the Issuer. The Notes are constituted by a trust deed (as amended and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 1 April 2019 made between the Issuer and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include any successor trustee) as trustee for the Noteholders (as defined below).

The Notes have the benefit of an agency agreement (as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 1 April 2019 and made between the Issuer, the Trustee, Citibank N.A., London Branch as principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent and, together with any additional paying agents appointed pursuant to the Agency Agreement, the “**Paying Agents**”), as transfer agent (the “**Transfer Agent**”, which expression shall include any additional or successor transfer agents) and as calculation agent (the “**Calculation Agent**”, which expression shall include any additional or successor calculation agents) and Citibank Global Markets Europe AG as registrar (the “**Registrar**”, which expression shall include any additional or successor registrar). References in these Conditions to “**Agents**” shall mean the Paying Agents, the Transfer Agent and the Registrar.

The terms and conditions applicable to the Notes are these terms and conditions (“**Conditions**”) as may be completed by a set of final terms in relation to each Series (as defined below) (“**Final Terms**”). The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which complete these Conditions. References to the “**applicable Final Terms**” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

References herein to the “**Notes**” shall be references to the Notes (whether in global form as a registered global note (a “**Global Note**”) or a definitive Note in registered form (whether or not exchanged for a Global Note) (“**Definitive Notes**”)) which are the subject of the applicable Final Terms.

The Trustee acts for the benefit of the “**Noteholders**” (which expression shall mean the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided in Condition 1 (*Form, Denomination and Title*) below), in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are: (a) expressed to be consolidated and form a single series; and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates (unless this is a Zero Coupon Note), Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection and/or collection during normal business hours at the specified office of the Principal Paying Agent. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer, the Trustee and the relevant Agent as to its holding of such Notes and identity. The Noteholders are deemed to have notice of, are bound by and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.



Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## 1. FORM, DENOMINATION AND TITLE

The Notes are issued in registered form and, in the case of Definitive Notes, serially numbered, in each case in the specified currency (the “**Specified Currency**”) and the specified denomination(s) (the “**Specified Denomination(s)**”) shown in the applicable Final Terms or integral multiples thereof, without interest coupons, *provided that* the (i) Specified Denomination(s) shall not be less than €100,000 or its equivalent in other currencies and (ii) interests in the Rule 144A Global Notes (as defined below) shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis specified in the applicable Final Terms.

Subject as provided below, title to the Notes will pass upon registration of transfers in the register (the “**Register**”) maintained by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the registered holder of any Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

For so long as the Depository Trust Company (“**DTC**”) or its nominee is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Trust Deed and the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

## **2. TRANSFERS OF NOTES**

### **2.1 *Transfers of interests in Global Notes***

Transfers of beneficial interests in Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Notes or for a beneficial interest in another Global Note only in the Specified Denomination(s) set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

### **2.2 *Transfers of Definitive Notes***

Subject as provided in Conditions 2.5 (*Transfers of interests in Regulation S Global Notes*), 2.6 (*Transfers of interests in Legended Notes*) and 2.7 (*Exchanges and transfers of Notes generally*) below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, Definitive Notes may be transferred in whole or in part (in the Specified Denomination(s) set out in the applicable Final Terms).

In order to effect any such transfer; (a) the holder or holders must: (i) surrender the Definitive Note for registration of the transfer of the Note (or the relevant part of the Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and (ii) complete and deposit such other certifications as may be required by the Transfer Agent; and (b) the Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 4 (*Register and Transfer of Notes*) to the Agency Agreement). Subject as provided above, the Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver, or procure the delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Note of a like aggregate nominal amount to the Note (or the relevant part of the Note) transferred. In the case of the transfer of part only of a Definitive Note, a new Definitive Note in respect of the balance of the Note not transferred will be so delivered or (at the risk of the transferor) sent to the transferor. A Note may not be transferred unless the nominal amount of Notes transferred and (where not all of the Notes held by a transferor are being transferred) the nominal amount of the balance of Notes not transferred are Specified Denominations.

### **2.3 *Registration of transfer upon partial redemption***

In the event of a partial redemption of Notes under Condition 6 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Note, or part of a Note, called for partial redemption.

### **2.4 *Costs of registration***

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## 2.5 *Transfers of interests in Regulation S Global Notes*

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
- (b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (a) above, such transferee may take delivery through a Legended Note in global or definitive form. After expiry of the applicable Distribution Compliance Period: (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC; and (ii) such certification requirements will no longer apply to such transfers.

## 2.6 *Transfers of interests in Legended Notes*

Transfers of Legended Notes or beneficial interests therein may be made:

- (a) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (b) to a transferee who takes delivery of such interest through a Legended Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

## 2.7 *Exchanges and transfers of Notes generally*

Holders of interests in a Global Note may exchange such interests for Definitive Notes of the same type upon the occurrence of an Exchange Event (as defined in the Global Note).

## 2.8 *Definitions*

In this Condition, the following expressions shall have the following meanings:

“**Distribution Compliance Period**” means, with respect to a Tranche of Notes, the period that ends 40 days after the completion of the distribution of such Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“**Legended Note**” means Notes (whether in definitive form or represented by a Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a “**Legend**”);

“**QIB**” means a “qualified institutional buyer” within the meaning of Rule 144A;

“**Regulation S**” means Regulation S under the Securities Act;

“**Regulation S Global Note**” means a Global Note representing Notes sold outside the United States in reliance on Regulation S;

“**Rule 144A**” means Rule 144A under the Securities Act;

“**Rule 144A Global Note**” means a Global Note representing Notes sold in the United States or to QIBs pursuant to Rule 144A; and

“**Securities Act**” means the United States Securities Act of 1933, as amended.

### 3. STATUS OF THE NOTES

The Notes are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### 4. INTEREST

#### 4.1 *Interest on Fixed Rate Notes*

Each Fixed Rate Note (other than where the Specified Currency is Renminbi and the applicable Final Terms specifies a Business Day Convention to be applicable) bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Where the Specified Currency of a Fixed Rate Note is Renminbi and the applicable Final Terms specifies a Business Day Convention to be applicable (each an “**Adjusted Renminbi Fixed Rate Note**”), that Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. For this purpose, “**Interest Payment Date**” means the Interest Payment Date(s) specified as such in the applicable Final Terms as adjusted in accordance with the applicable Business Day Convention. The amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such Interest Payment Date will be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of that Adjusted Renminbi Fixed Rate Note by the applicable Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 being rounded upwards. Each such calculation will be made by the Calculation Agent.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Conditions:

**“Day Count Fraction”** means, in respect of the calculation of an amount of interest, in accordance with this Condition 4.1 (*Interest on Fixed Rate Notes*):

- (a) if **“Actual/Actual (ICMA)”** is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **“Accrual Period”**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (A) the number of days in such Determination Period; and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if **“30/360”** is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
- (c) if **“Actual/365 (Fixed)”** is specified in the applicable Final Terms, the actual number of days divided by 365; or
- (d) such other day count fraction as is specified in the applicable Final Terms;

**“Determination Period”** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

**“Fixed Interest Period”** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

**“sub-unit”** means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

#### 4.2 *Interest on Floating Rate Notes*

##### (a) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **“Interest Payment Date”**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each **“Interest Period”** (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).



In these Conditions, if a Business Day Convention is specified in the applicable Final Terms: and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur; or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) (*Interest Payment Dates*) above, the Floating Rate Convention, such Interest Payment Date: (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis*; or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day; and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is both:

- (a) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each of London and an Additional Business Centre (other than the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET 2) System or any successor thereto (the “**TARGET 2 System**”)) specified in the applicable Final Terms;
- (b) if the TARGET 2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the TARGET 2 System is open; and
- (c) either: (1) in relation to any sum payable in a Specified Currency other than Euro or Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; (2) in relation to any sum payable in Euro, a day on which the TARGET 2 System is open; or (3) in the case of Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the applicable Renminbi Settlement Centre(s).

(b) **Rate of Interest**

The rate of interest (the “**Rate of Interest**”) payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(i) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or the Calculation Agent, as applicable, under an interest rate swap transaction if the Principal Paying Agent or the Calculation Agent, as applicable, were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA

Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either: (1) if the applicable Floating Rate Option is based on the London interbank offered rate (“**LIBOR**”) or on the Euro-zone interbank offered rate (“**EURIBOR**”), the first day of that Interest Period; or (2) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(ii) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as of 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) (the “**Specified Time**”) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent or the Calculation Agent, as applicable. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent or the Calculation Agent, as applicable, for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if: (i) no offered quotation appears; or (ii) fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent or the Calculation Agent, as applicable.

For the purposes of this subparagraph (ii), “**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Principal Paying Agent and approved in writing by the Trustee or as specified in the applicable Final Terms.

(c) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Principal Paying Agent or the Calculation Agent, as applicable, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent or the Calculation Agent, as applicable, will (other than for Adjusted Renminbi Fixed Rate Notes) calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2 (*Interest on Floating Rate Notes*):

- (a) if “**Actual/Actual (ISDA)**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of: (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (f) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (g) if “**30E/360 (ISDA)**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Interest Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Interest Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless: (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) **Linear interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however that* if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (i) in relation to Screen Rate Determination, the period of time designated in the Reference Rate; and (ii) in relation to ISDA Determination, the Designated Maturity.

(f) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the other Paying Agents and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 12 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12 (*Notices*). For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) ***Reference Rate Replacement***

If:

- (i) Reference Rate Replacement is specified in the applicable Final Terms as being applicable; and
- (ii) a Benchmark Event occurs in relation to a Reference Rate at any time when any Rate of Interest (or component thereof) remains to be determined by reference to such Reference Rate, then (notwithstanding the provisions of Condition 4.2(b)(ii) (*Screen Rate Determination for Floating Rate Notes*)), the following provisions shall apply to the relevant Series of Notes:
  - (A) the Issuer shall use reasonable endeavours to appoint and consult with an Independent Adviser with a view to the Issuer determining (in each case acting in good faith and in a commercially reasonable manner): a Successor Reference Rate; or failing which, an Alternative Reference Rate, and in each case, an Adjustment Spread (if any), no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or any component thereof) is to be determined by reference to the relevant Reference Rate (the “**Initial Issuer Determination Cut-off Date**”), for the purposes of determining the Rate of Interest applicable to the Notes for such next Interest Period and for all other relevant future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g) during any other future Interest Period(s));
  - (B) if the Issuer is unable to appoint an Independent Adviser or, following consultation with an Independent Adviser so appointed, it fails to determine a Successor Reference Rate or an Alternative Reference Rate (as applicable) prior to the relevant Initial Issuer Determination Cut-off Date, the Issuer may determine (in each case acting in good faith and in a commercially reasonable manner): a Successor Reference Rate; or failing which, an Alternative Reference Rate, and, in each case, an Adjustment Spread (if any), no later than three Business Days prior to the Interest Determination Date relating to the next Interest Period for which the Rate of Interest (or any component thereof) is to be determined by reference to the relevant Reference Rate (the “**Final Issuer Determination Cut-off Date**”), for the purposes of determining the Rate of Interest applicable to the Notes for such next Interest Period and for all other relevant future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g) during any other future Interest Period(s)). Without prejudice to the definitions thereof, for the purposes of determining any Alternative Reference Rate and/or any Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;



(C) if a Successor Reference Rate or, failing which, an Alternative Reference Rate (as applicable) is determined by the Issuer, following consultation with the relevant Independent Adviser (if applicable), in accordance with this Condition 4.2(g):

- (1) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be the Reference Rate for all future Interest Periods for which the Rate of Interest (or any component thereof) was otherwise to be determined by reference to the relevant Reference Rate (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g));
- (2) if the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner):
  - (I) determines that an Adjustment Spread is required to be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all relevant future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g)); or
  - (II) is unable to determine the quantum of, or a formula or methodology for determining, an Adjustment Spread, then such Successor Reference Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread for all relevant future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g));
- (3) the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) may in its discretion specify:
  - (I) changes to these Conditions in order to follow market practice in relation to such Successor Reference Rate or Alternative Reference Rate (as applicable), including, but not limited to changes to (x) the Additional Financial Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page and/or Specified Time applicable to the Notes; and/or (y) the method for determining the fallback to the Rate of Interest in relation to the Notes if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and
  - (II) any other changes to the Conditions which the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable),

which changes shall apply to the Notes for all relevant future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 4.2(g)); and

- (4) promptly following the determination of (I) any Successor Reference Rate or Alternative Reference Rate (as applicable) and (II) if applicable, any Adjustment Spread, the Issuer shall give notice thereof and of any changes (and the effective date thereof) pursuant to this Condition 4.2(g) (*Reference Rate Replacement*) to the Principal Paying Agent, the Trustee, any stock exchange or listing authority on which the relevant Notes are for the time being listed (if required) and, in accordance with Condition 12 (*Notices*), the Noteholders.

The Trustee shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and the Conditions as may be required to give effect to this Condition 4.2(g) and the Trustee shall not be liable to any

party for any consequence thereof, save as provided in the Trust Deed; *provided that* the Trustee shall not be obliged to effect such consequential amendments if, in the sole opinion of the Trustee, doing so would impose more onerous obligations on it or expose it to any additional duties, responsibilities or liabilities or reduce or amend rights and/or protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental Trust Deed) in any way.

No consent of the Noteholders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) as described in this Condition 4.2(g) or such other relevant changes pursuant to this Condition 4.2(g), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Trust Deed and/or the Agency Agreement (if required).

For the avoidance of doubt, (i) if a Successor Reference Rate or an Alternative Reference Rate is not determined pursuant to the operation of this Condition 4.2(g) prior to the relevant Final Issuer Determination Cut-off Date, then the Rate of Interest for the next Interest Period shall be determined by reference to the original Reference Rate and the fallback provisions of Condition 4.2(b)(ii) but (ii) in such circumstances, the Rate of Interest for any subsequent Interest Period(s) shall be subject to the subsequent operation of, and to adjustment as provided in, this Condition 4.2(g).

For the purposes of these Conditions:

**“Adjustment Spread”** means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) determines is required to be applied to a Successor Reference Rate or an Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders as a result of the replacement of the Reference Rate with such Successor Reference Rate or Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable); or
- (iii) if neither (i) nor (ii) applies, the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) in its discretion determines to be appropriate;

**“Alternative Reference Rate”** means the rate that the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) determines has replaced the Reference Rate in customary market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component thereof) in respect of notes denominated in the Specified Currency and of a comparable duration to the relevant Interest Period(s), or, if the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines that there is no such rate, such other rate as the Issuer, following consultation with the relevant Independent Adviser (if applicable), determines in its discretion is most comparable to the Reference Rate;

**“Benchmark Event”** means, with respect to a Reference Rate:

- (i) the Reference Rate ceasing to exist or be published; or

- (ii) the later of (A) the making of a public statement by the administrator of such Reference Rate that it will, on or before a specified date, cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate) and (B) the date falling six months prior to the specified date referred to in (ii)(A); or
- (iii) the making of a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been permanently or indefinitely discontinued; or
- (iv) the later of (A) the making of a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate will, on or before a specified date, be permanently or indefinitely discontinued and (B) the date falling six months prior to the specified date referred to in (iv)(A); or
- (v) the later of (A) the making of a public statement by the supervisor of the administrator of such Reference Rate that means such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case on or before a specified date and (B) the date falling six months prior to the specified date referred to in (v)(A); or
- (vi) it has or will prior to the next Interest Determination Date become unlawful for the Issuer, the Agent, any other party specified in the applicable Final Terms as being responsible for calculating the Rate of Interest or any Paying Agent to calculate any payments due to be made to any Noteholder using such Reference Rate;

**“Independent Adviser”** means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed under Condition 4.2(g)(ii)(A) by the Issuer at its own expense;

**“Relevant Nominating Body”** means, in respect of a Reference Rate:

- (i) the central bank for the currency to which such Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such Reference Rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which such Reference Rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of such Reference Rate, (C) a group of the aforementioned central banks or other supervisory authorities, or (D) the Financial Stability Board or any part thereof; and

**“Successor Reference Rate”** means the rate that the Issuer, following consultation with the relevant Independent Adviser (if applicable), (acting in good faith and in a commercially reasonable manner) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

(h) ***Determination or calculation by Issuer***

If for any reason, at any relevant time, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) (*ISDA Determination for Floating Rate Notes*) or subparagraph (b)(ii) (*Screen Rate Determination for Floating Rate Notes*) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) (*Determination of Rate of Interest and calculation of Interest Amounts*) above:

- (i) the Issuer shall, no later than five Business Days prior to the relevant Interest Determination Date, use reasonable endeavours to appoint and consult with an Independent Adviser with a view to the Issuer determining the Rate of Interest and/or, as the case may be, the Interest Amount(s) relating to the next Interest Period for which the Rate of Interest and/or, as the case may be, the Interest Amount(s) is or are to be determined, in each case acting in good faith and in a commercially reasonable manner and having such regard as it shall think fit to the foregoing provisions of this Condition 4.2, any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of

market standards and/or protocols in the international debt capital markets, and subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms; or

- (ii) if the Issuer is unable to appoint an Independent Adviser or, following consultation with an Independent Adviser so appointed, it fails to determine the Rate of Interest and/or, as the case may be, the Interest Amount(s) prior to the date specified in subparagraph (h)(i) above, the Issuer may determine the Rate of Interest and/or, as the case may be, the Interest Amount(s), no later than three Business Days prior to the relevant Interest Determination Date, in each case acting in good faith and in a commercially reasonable manner and having such regard as it shall think fit to the foregoing provisions of this Condition 4.2, any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets, and subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms.

The Issuer shall, promptly following the determination of the Rate of Interest and/or, as the case may be, the Interest Amount(s) pursuant to this subparagraph (h), give notice thereof and of any changes to the Principal Paying Agent, the Trustee, any stock exchange or listing authority on which the relevant Notes are for the time being listed (if required) and, in accordance with Condition 12 (*Notices*), the Noteholders.

(i) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest on Floating Rate Notes*) or Condition 5.6 (*Renminbi Currency Event*), whether by the Principal Paying Agent or, in the case of Condition 5.6 (*Renminbi Currency Event*), the Calculation Agent, shall (in the absence of gross negligence, wilful default, fraud or manifest or proven error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent, the other Agents and all Noteholders and (in the absence of wilful default or fraud) no liability to the Issuer or the Noteholders shall attach to the Principal Paying Agent, the Trustee or, in the case of Condition 5.6 (*Renminbi Currency Event*), the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 *Accrual of interest***

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 12 (*Notices*) as provided in the Trust Deed.

**5. PAYMENTS**

**5.1 *Method of payment***

Subject as provided below:

- (a) payments in a Specified Currency other than Euro or Renminbi will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency;
- (b) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee; and
- (c) payments in Renminbi will be made by credit or transfer to a Renminbi account maintained by the payee with a bank in the applicable Renminbi Settlement Centre(s).

Payments will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*); and (ii) any

withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof (“**FATCA**”), or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach to FATCA.

## 5.2 *Payments of principal and interest*

Payments of principal in respect of each Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes, “**Designated Account**” means the account maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means: (i) in the case of payment in a Specified Currency other than Euro or Renminbi, a bank in the principal financial centre of the country of such Specified Currency; (ii) in the case of payment in Euro, any bank which processes payments in Euro; or (iii) in the case of a payment in Renminbi, any bank in the applicable Renminbi Settlement Centre(s).

Payments of interest in respect of each Note (whether or not in global form) will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business (in the relevant clearing system) on the day prior (whether or not such day is a business day) to the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days (in the city where the specified office of the Registrar is located) before the due date for any payment of interest in respect of a Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Notes.

All amounts payable to DTC or its nominee as registered holder of a Global Note in respect of Notes denominated in a Specified Currency other than U.S. Dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the relevant exchange agent on behalf of DTC or its nominee for conversion into and payment in U.S. Dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The registered holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

## 5.3 *Payment Day*

If the date for payment of any amount in respect of any Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be



entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 8 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Definitive Notes only, the relevant place of presentation; and
  - (ii) each Additional Financial Centre specified in the applicable Final Terms;
- (b) either: (1) in relation to any sum payable in a Specified Currency other than Euro or Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; (2) in relation to any sum payable in Euro, a day on which the TARGET 2 System is open; or (3) in relation to any sum payable in Renminbi, a day on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in the applicable Renminbi Settlement Centre(s); and
- (c) in the case of any payment in respect of a Global Note denominated in a Specified Currency other than U.S. Dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Global Note) has elected to receive any part of such payment in U.S. Dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

#### 5.4 ***Interpretation of principal and interest***

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6.7 (*Early Redemption Amounts*)); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

#### 5.5 ***Renminbi account***

All payments in respect of any Note in Renminbi will be made solely by credit to a registered Renminbi account maintained by the payee at a bank in the applicable Renminbi Settlement Centre(s) in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in the applicable Renminbi Settlement Centre(s)).

#### 5.6 ***Renminbi Currency Event***

If Renminbi Currency Event is specified as being applicable in the applicable Final Terms and a Renminbi Currency Event, as determined by the Issuer acting in good faith, exists on a date for payment of any principal or interest in respect of any Note, the Issuer’s obligation to make a payment in Renminbi under the terms of the Notes may be replaced by an obligation to pay such amount in the Relevant Currency (as specified in the applicable Final Terms) converted using the Spot Rate for the relevant Rate Calculation Date as promptly notified by the Calculation Agent to the Issuer and the Paying Agents.

Upon the occurrence of a Renminbi Currency Event, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 12 (*Notices*) stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purpose of these Conditions:

**“Governmental Authority”** means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the applicable Renminbi Settlement Centre(s);

**“Rate Calculation Business Day”** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the applicable Renminbi Settlement Centre(s), London and the principal financial centre of the country of the Relevant Currency;

**“Rate Calculation Date”** means the day which is two Rate Calculation Business Days before the due date of the relevant payment under the Notes;

**“Relevant Currency”** has the meaning given in the applicable Final Terms;

**“Renminbi”** or **“RMB”** means the lawful currency for the time being of the People’s Republic of China (the **“PRC”**), which, for these purposes, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;

**“Renminbi Currency Events”** means, with respect to any Notes where the Relevant Currency is Renminbi, any one of Renminbi Illiquidity, Renminbi Non-Transferability and Renminbi Inconvertibility;

**“Renminbi Illiquidity”** means the general Renminbi exchange market in the applicable Renminbi Settlement Centre(s) becomes illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to make a payment under the Notes, as determined by the Issuer in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in the applicable Renminbi Settlement Centre(s);

**“Renminbi Inconvertibility”** means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes into Renminbi on any payment date in the general Renminbi exchange market in the applicable Renminbi Settlement Centre(s), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**“Renminbi Non-Transferability”** means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside the applicable Renminbi Settlement Centre(s) or from an account inside the applicable Renminbi Settlement Centre(s) to an account outside the applicable Renminbi Settlement Centre(s) (including where the Renminbi clearing and settlement system for participating banks in the applicable Renminbi Settlement Centre(s) is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**“Renminbi Settlement Centre(s)”** means the financial centre(s) specified as such in the applicable Final Terms in accordance with applicable laws and regulations. If no Renminbi Settlement Centre is specified in the applicable Final Terms, the Renminbi Settlement Centre shall be deemed to be Hong Kong; and

**“Spot Rate”** means the spot Renminbi/Relevant Currency exchange rate for the purchase of the Relevant Currency with Renminbi in the over-the-counter Renminbi exchange market in the applicable Renminbi Settlement Centre(s) for settlement in two Rate Calculation Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (local time at the applicable Renminbi Settlement Centre(s)) on the Rate Calculation Date, on a deliverable basis by reference to the Relevant Spot Rate Screen Page (Deliverable Basis) (as specified in the applicable Final Terms), or if no such rate is available, on a non-deliverable basis by reference to the Relevant Spot Rate Screen Page (Non-deliverable Basis) (as specified in the applicable Final Terms). If neither rate is available, the Calculation Agent shall determine the rate taking into consideration all available information which the Calculation Agent deems relevant,

including pricing information obtained from the Renminbi non-deliverable exchange market in the applicable Renminbi Settlement Centre(s) or elsewhere and the Renminbi/Relevant Currency exchange rate in the PRC domestic foreign exchange market.

## **6. REDEMPTION AND PURCHASE**

### **6.1 *Redemption at maturity***

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount in the relevant Specified Currency on the Maturity Date, in each case, as specified in, or determined in the manner specified in, the applicable Final Terms.

### **6.2 *Redemption for tax reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 90 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 12 (*Notices*), the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 7 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes announced and effective on or after the date on which agreement is reached to issue the first Tranche of the Notes (or if such jurisdiction became a Relevant Tax Jurisdiction on a date subsequent thereto, after such date); and
- (b) such obligation cannot be avoided by the Issuer, taking reasonable measures available to it,

*provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer shall deliver to the Trustee a certificate signed by an Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

Notes redeemed pursuant to this Condition 6.2 (*Redemption for tax reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 6.7 (*Early Redemption Amounts*) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **6.3 *Redemption at the option of the Issuer (Issuer Call)***

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 12 (*Notices*); and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee, the Principal Paying Agent and the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and in accordance with

the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 (*Redemption at the option of the Issuer (Issuer Call)*) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 12 (*Notices*) at least five days prior to the Selection Date.

#### 6.4 ***Redemption at the option of the Issuer (Issuer Maturity Par Call)***

If Issuer Maturity Par Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 12 (*Notices*) (which notice shall be irrevocable and specify the date fixed for redemption), redeem the Notes then outstanding in whole, but not in part, at any time during the Maturity Par Call Period specified as being applicable in the applicable Final Terms, at the Final Redemption Amount specified in the applicable Final Terms, together, if appropriate, with interest accrued but unpaid to (but excluding) the date fixed for redemption.

#### 6.5 ***Redemption at the option of the Noteholders (Investor Put)***

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 12 (*Notices*) not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount (each as specified in the applicable Final Terms) together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Notes may be redeemed under this Condition 6.5 (*Redemption at the option of the Noteholders (Investor Put)*) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note pursuant to this Condition 6.5 (*Redemption at the option of the Noteholders (Investor Put)*) the holder of this Note must, if this Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg and DTC, deliver, at the specified office of any Paying Agent or the Registrar at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “**Put Notice**”) and in which the holder must specify a bank account to which payment is to be made under this Condition 6.5 (*Redemption at the option of the Noteholders (Investor Put)*) and the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Notes so surrendered is to be redeemed, an address to which a new Note in respect of the balance of such Notes is to be sent subject to and in accordance with the provisions of Condition 2.2 (*Transfers of Definitive Notes*).

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 6.5 (*Redemption at the option of the Noteholders (Investor Put)*) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 9 (*Events of Default and Enforcement*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.5 (*Redemption at the option of the Noteholders (Investor Put)*) and instead to declare such Note forthwith due and payable pursuant to Condition 9 (*Events of Default and Enforcement*).

## 6.6 *Redemption at the option of the Noteholders (Change of Control Put)*

If Change of Control Put is specified as being applicable in the applicable Final Terms, then this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) shall apply.

A “**Change of Control Put Event**” will be deemed to occur if:

- (a) a Change of Control occurs; and
- (b) on the date (the “**Relevant Announcement Date**”) that is the earlier of (x) the date of the earliest Potential Change of Control Announcement (if any) and (y) the date of the first public announcement of the relevant Change of Control, the Notes carry:
  - (i) an investment grade credit rating (Baa3/BBB-/BBB- or equivalent or better) from any Rating Agency (provided by such Rating Agency at the invitation or with the consent of the Issuer) and such rating is within the Change of Control Period either downgraded to a non-investment grade credit rating (Ba1/BB+/BB+ or equivalent or worse) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to an investment grade credit rating by such Rating Agency; or
  - (ii) a non-investment grade credit rating (Ba1/BB+/BB+ or equivalent or worse) from any Rating Agency (provided by such Rating Agency at the invitation or with the consent of the Issuer) and such rating is within the Change of Control Period downgraded by one or more notches (for illustration, Ba1/BB+/BB+ to Ba2/BB/BB being one notch) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to its earlier credit rating or better by such Rating Agency; or
  - (iii) no credit rating from any Rating Agency (at the invitation or with the consent of the Issuer) and a Negative Rating Event also occurs within the Change of Control Period,and
- (c) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such downgrading and/or withdrawal resulted, directly or indirectly, from the Change of Control). Upon receipt by the Issuer of any such written confirmation, the Issuer shall forthwith give notice of such written confirmation to the Noteholders in accordance with Condition 12 (*Notices*).

If the rating designations employed by Moody’s, Standard & Poor’s or Fitch (each as defined below) are changed from those which are described in paragraph (b) of the definition of “Change of Control Put Event” above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine the rating designations of Moody’s, S&P or Fitch or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody’s, S&P or Fitch and this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) shall be construed accordingly.

If a Change of Control Put Event occurs, the holder of any Note will have the option to require the Issuer to redeem or, at the Issuer’s option, purchase (or procure the purchase of) such Note on or prior to the Change of Control Put Date (as defined below) at the Change of Control Redemption Amount together (if appropriate) with interest accrued to (but excluding) the Change of Control Put Date or, if earlier the redemption date.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred and, in any event, within 14 days of the occurrence of the relevant Change of Control Put Event, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 12 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it and the procedure for exercising the option set out in this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*).

To exercise the right to require redemption of this Note pursuant to this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) the holder of this Note must, if this Note is in definitive form and held outside Euroclear, Clearstream, Luxembourg and DTC, deliver, at the specified office of any Paying Agent or the Registrar at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of



exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “**Change of Control Put Option Notice**”) and in which the holder must specify a bank account to which payment is to be made under this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) and the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Notes so surrendered is to be redeemed, an address to which a new Note in respect of the balance of such Notes is to be sent subject to and in accordance with the provisions of Condition 2.2 (*Transfers of Definitive Notes*).

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

Any Change of Control Put Option Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 9 (*Events of Default and Enforcement*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*) and instead to declare such Note forthwith due and payable pursuant to Condition 9 (*Events of Default and Enforcement*).

If 75% or more in nominal amount of the Notes then outstanding have been redeemed or, as the case may be, purchased, pursuant to this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*), the Issuer may, on giving not less than 15 days nor more than 30 days’ notice to the Noteholders in accordance with Condition 12 (*Notices*) (such notice to be given within 30 days of the Change of Control Put Date or, if earlier, the redemption date), redeem or, at the Issuer’s option, purchase (or procure the purchase of) all but not some only of the remaining outstanding Notes at their Change of Control Redemption Amount together (if applicable) with interest accrued to but excluding the date fixed for redemption or purchase, as the case may be.

For the purpose of these Conditions:

a “**Change of Control**” shall occur if, at any time, Saudi Arabia ceases to own, directly or indirectly, more than 50% of the issued share capital of the Issuer;

“**Change of Control Period**” means the period commencing on the Relevant Announcement Date and ending 90 days after the occurrence of the Change of Control or, where a Rating Agency has publicly announced that the Notes are under consideration for rating review or, as the case may be, rating (such public announcement being within the period ending 90 days after the Change of Control), the later of (i) such 90th day after the Change of Control and (ii) the date falling 60 days after such public announcement;

“**Change of Control Put Date**” means the 10th Business Day following the last day of the Change of Control Put Period;

“**Change of Control Put Period**” means the period from, and including, the date of a Change of Control Put Event Notice to, but excluding, the 30th day following the date of the Change of Control Put Event Notice;

“**Change of Control Redemption Amount**” means, in relation to each Note to be redeemed or purchased pursuant to this Condition 6.6 (*Redemption at the option of the Noteholders (Change of Control Put)*), an amount equal to the nominal amount of such Note or such other amount as may be specified in the applicable Final Terms;

a “**Negative Rating Event**” shall be deemed to have occurred, if at any time there is no rating assigned to the Notes by any Rating Agency (at the invitation or with the consent of the Issuer), either (i) the Issuer

does not, prior to or not later than 21 days after the occurrence of the relevant Change of Control, seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes or (ii) if the Issuer does so seek and use all such reasonable endeavours, it is unable to obtain such rating of at least investment grade (Baa3/BBB-/BBB- or equivalent or better) by the end of the Change of Control Period and the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Trustee that the failure to issue a rating of at least investment grade (Baa3/BBB-/BBB- or equivalent or better) was as a result, directly or indirectly, from the Change of Control;

**“Potential Change of Control Announcement”** means any public announcement or statement by the Issuer, any actual or potential bidder or any designated adviser thereto relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs;

**“Rating Agency”** means any of the credit rating agencies of Fitch Ratings (**“Fitch”**), Moody’s Investors Service (**“Moody’s”**) or Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (**“Standard & Poor’s”**) and their respective successors to their ratings business or any other rating agency (each a **“Substitute Rating Agency”**) of equivalent international standing specified by the Issuer from time to time; and

**“Saudi Arabia”** means the Kingdom of Saudi Arabia (including any department, ministry, agency or instrumentality or any subdivision thereof).

## 6.7 **Early Redemption Amounts**

For the purpose of Condition 6.2 (*Redemption for tax reasons*) above and Condition 9 (*Events of Default and Enforcement*), each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **“Amortised Face Amount”**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y \text{ (the “Early Redemption Amount”)}$$

where:

**“RP”** means the Reference Price;

**“AY”** means the Accrual Yield expressed as a decimal; and

**“y”** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360.

## 6.8 **Purchases**

The Issuer or any Subsidiary may at any time purchase Notes at any price and in any manner, in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent or the Registrar for cancellation.

## 6.9 **Cancellation**

All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and any Notes purchased and surrendered for cancellation pursuant to Condition 6.8 (*Purchases*) above shall be forwarded to the Principal Paying Agent for cancellation and cannot be reissued or resold.

## 6.10 **Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1 (*Redemption at maturity*), 6.2 (*Redemption for tax reasons*), 6.3 (*Redemption at*

the option of the Issuer (Issuer Call)), 6.4 (Redemption at the option of the Issuer (Issuer Maturity Par Call)), Condition 6.5 (Redemption at the option of the Noteholders (Investor Put)) or Condition 6.6 (Redemption at the option of the Noteholders (Change of Control Put)) above or upon its becoming due and repayable as provided in Condition 9 (Events of Default and Enforcement) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.7(c) (Early Redemption Amounts) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 12 (Notices).

## 7. TAXATION

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Saudi Arabia or any other jurisdiction the Issuer is resident or doing business in for tax purposes, or, in either case, any political subdivision therein or any authority therein or thereof having power to tax (each, a “**Relevant Tax Jurisdiction**”), unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the holders or beneficial owners of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

- (a) by or on behalf of a holder or beneficial owner, that would not have been payable or due but for the holder or beneficial owner being liable for such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with a Relevant Tax Jurisdiction, other than the mere acquisition or holding of any Note or the enforcement or receipt of payment under or in respect of any Note;
- (b) more than 30 days after the Relevant Date (as defined below), except to the extent that the holder or beneficial owner of such Note would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days, assuming that day to have been a Payment Day (as defined in Condition 5.3 (Payment Day));
- (c) in respect of any estate, inheritance, gift, sales, transfer, personal property, or any similar tax, assessment or governmental charge;
- (d) in respect of any tax, assessment or other governmental charge which is payable other than by withholding or deduction from payments of principal of or interest on such Note;
- (e) in respect of any tax, assessment or other governmental charge which is required to be withheld or deducted by any Paying Agent from payments of principal of or interest on any Notes if such payment can be made without such withholding or deduction by at least one other Paying Agent;
- (f) where such withholding or deduction is required pursuant to Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto; or
- (g) any combination of items (a) through (f) above.

As used herein, “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12 (Notices).

## 8. PRESCRIPTION

The Notes will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7 (*Taxation*)) therefor.

## 9. EVENTS OF DEFAULT AND ENFORCEMENT

### 9.1 *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25% in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/ or prefunded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an “**Event of Default**”) shall occur and be continuing:

- (a) *Non-payment*: if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 30 days; or
- (b) *Breach of other obligations*: if the Issuer defaults in the performance of any of its other obligations under these Conditions or the Trust Deed (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 90 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) *Insolvency proceedings*: an involuntary case or other proceeding shall be commenced against the Issuer seeking liquidation, reorganisation or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or an encumbrancer takes possession of the whole or substantially all of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or substantially all of its undertaking or assets, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days or an order for relief shall be entered against the Issuer under applicable bankruptcy laws as now or hereafter in effect or any analogous procedure or step is taken in any jurisdiction; or
- (d) *Consent to proceedings*: the Issuer shall commence a voluntary case or other proceeding seeking liquidation, reorganisation or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property (in each case, save for the purposes of any intra-Group reorganisation on a solvent basis), or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall stop or threaten to stop payment of, or is unable to, or admits inability to, pay, its debts as they become due or is deemed unable to pay its debts pursuant to or for the purpose of any applicable law, or is adjudicated or found bankrupt or insolvent, or shall take any corporate action to authorise any of the foregoing or any analogous procedure or step is taken in any jurisdiction; or
- (e) *Ceasing to carry on business*: the Issuer ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution, or shall take any corporate action to authorise any of the foregoing or any analogous procedure or step is taken in any jurisdiction; or
- (f) *Illegality*: if: (i) the validity of the Notes is contested by the Issuer; or (ii) the Issuer shall deny any of its obligations under the Notes; or (iii) as a result of any change in, or amendment to, the laws or regulations in the Kingdom of Saudi Arabia, which change or amendment takes place after the date on which agreement is reached to issue the first Tranche of the Notes: (A) it becomes unlawful for the Issuer to perform or comply with any of its payment obligations under or in respect of the Notes or the Trust Deed; or (B) any of such obligations becomes unenforceable or invalid.

## 9.2 ***Enforcement***

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes unless: (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least 25% in aggregate nominal amount of the Notes then outstanding; and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

After any such proceedings or any other action has been taken by the Trustee, but before a judgment or decree for the payment of money due based on such proceedings or other action has been obtained by the Trustee, the holders of a majority in aggregate nominal amount of the Notes then outstanding may rescind and annul such proceedings or other action in writing if all Events of Default (other than the non-payment of the principal of such Notes that have become due solely by such declaration of acceleration), have been cured or waived as provided in the Trust Deed.

The holders of a majority in aggregate nominal amount of the Notes then outstanding may, on behalf of the holders of such Notes, waive any past default and any Event of Default arising therefrom, *provided that* a default not theretofore cured in the payment of the principal or interest on such Notes or in respect of an undertaking or covenant in the Notes or the Trust Deed, the modification of which would constitute a Reserved Matter (as defined in the Trust Deed), may be waived only by a percentage of holders of outstanding Notes that would be sufficient to effect a modification, amendment, supplement or waiver of such matter.

## 10. **REPLACEMENT OF NOTES**

Should any Note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## 11. **AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, *provided that*:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent, Registrar and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) if a Calculation Agent (other than the Principal Paying Agent) has been appointed in the applicable Final Terms, there will at all times be a Calculation Agent; and
- (d) so long as any of the Global Notes payable in a Specified Currency other than U.S. Dollars are held through DTC or its nominee, there will at all times be an exchange agent.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 60 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 12 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.



## 12. NOTICES

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any Definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Definitive Notes) with the relative Note or Notes, with the Registrar. While any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

## 13. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

### 13.1 *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or any of the provisions of the Trust Deed, the Agency Agreement or the Calculation Agency Agreement. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 10% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which constitutes a Reserved Matter the quorum shall be one or more persons holding or representing not less than 75% in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than 25% in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

The expression “**Extraordinary Resolution**” is defined in the Trust Deed to mean either: (i) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75% of the votes cast; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75% in nominal amount of the outstanding Notes; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of not less than 75% in nominal amount of the outstanding Notes, provided that, for the purposes of any (A) rescission or annulment of proceedings or other action or (B) waiving any past default and any Event of Default arising therefrom, in each case, in the limited circumstances described in Condition 9.2 (*Enforcement*) (which, for the avoidance of doubt, shall not include any payment default or any matter constituting a Reserved Matter), references in this definition to “not less than 75%” shall be substituted for “a clear majority”.

### 13.2 *Modification and Waiver*

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, the Agency Agreement or the Calculation Agency Agreement (other than in the case of a Reserved Matter or

any provision of the Trust Deed or these Conditions referred to in the definition of a Reserved Matter), or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the sole opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error. Any such modification shall be binding on the Noteholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, except to the extent already provided for in Condition 7 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 (*Taxation*) pursuant to the Trust Deed.

### **13.3 Substitution**

The Trustee shall without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to: (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer; and (ii) certain other conditions set out in the Trust Deed being complied with.

## **14. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*: (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries; (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders; and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **15. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, to create and issue further notes having terms and conditions the same as the Notes (or the same in all respects save for the amount and date of the first payment of interest thereon) and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **17. GOVERNING LAW AND DISPUTE RESOLUTION**

### **17.1 Governing law**

The Trust Deed, the Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement and the Notes (including the remaining provisions of this Condition), are and shall be governed by, and construed in accordance with, English law.

### 17.2 *Agreement to arbitrate*

Any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a “**Dispute**”) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (the “**LCIA**”), in force as at the date of these Conditions (the “**Rules**”) which Rules are deemed to be incorporated by reference into this Condition 17.2. For these purposes:

- (a) the seat of arbitration shall be London;
- (b) there shall be three arbitrators, each of whom shall have no personal interest in the arbitration and each of whom shall have no connection with any party thereto;
- (c) the parties to the Dispute shall each nominate one arbitrator in accordance with the Rules and both party-nominated arbitrators shall nominate a further arbitrator who shall be the presiding arbitrator if appointed by the LCIA. In cases where there are multiple claimants and/or multiple respondents, the claimants jointly, and the respondents jointly shall each nominate one arbitrator. In the event that any party fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party-nominated arbitrators fail to nominate an arbitrator to be the presiding arbitrator within 15 days of the appointment of the second party-nominated arbitrator, the presiding arbitrator shall be selected and appointed by the LCIA;
- (d) the language of the arbitration shall be English; and
- (e) Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

### 17.3 *Waiver of immunity*

In relation to any proceedings in any jurisdiction with respect to these Conditions, the Issuer waives generally all immunity it or its assets or revenues may otherwise have in such jurisdiction, including immunity in respect of:

- (a) the giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues; and
- (b) the issue of any process against its assets or revenues for the enforcement of a judgment or, in an action in rem, for the arrest, detention or sale of any of its assets and revenues.

### 17.4 *Other documents*

The Issuer has in the Trust Deed and the Agency Agreement made provision for arbitration in terms substantially similar to those set out above.

## FORM OF FINAL TERMS

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.*

**[MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET]**—Solely for the purposes of [the/each] manufacturer’s product approval process, the targeted market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU, as amended (“**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS]**—The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC, as amended (“**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.]

**Final Terms dated [●]**

**SAUDI ARABIAN OIL COMPANY**

**Legal entity identifier (LEI): 5586006WO91QHB7J4X50**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
**under the Global Medium Term Note Programme**

### **PART A—CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 1 April 2019 [and the supplement[s] to it dated [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC, as amended or superseded (the “**Prospectus Directive**”) (the “**Base Prospectus**”). This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus has been published [on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>], copies are available for viewing during normal business hours at [address] and copies may be obtained from [address].]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the base prospectus dated [original date] [and the supplement[s] to it dated [●]]. This document constitutes the Final Terms of the Notes described herein prepared for the purposes of Article 5.4 of Directive 2003/71/EC, as amended or superseded (the “**Prospectus Directive**”) and must be read in conjunction with the base prospectus dated [●] [and the supplement[s] to it dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “**Base Prospectus**”), save in respect of the Conditions which are extracted from the Base Prospectus dated 1 April 2019 [and the supplemental Base Prospectus dated [●]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 1 April 2019 and [●] [and the supplemental Base Prospectuses dated [●] and [●]]. [The Base Prospectuses [and the supplemental Base Prospectuses] have been published [on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>], copies are available for viewing during normal business hours at [address] and copies may be obtained from [address].]]

1. Issuer: Saudi Arabian Oil Company
2. [(i)] Series Number: [●]  
[(ii)] Tranche Number: [●]  
[(iii)] Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [●] on [●]/[Not Applicable]
3. Specified Currency or Currencies: [●]
4. Aggregate Nominal Amount of Notes: [●]  
[(i)] Series: [●]  
[(ii)] Tranche: [●]
5. Issue Price: [●]% of the Aggregate Nominal Amount [plus accrued interest from [●]]
6. (i) Specified Denominations: [●]  
(ii) Calculation Amount: [●]
7. (i) Issue Date: [●]  
(ii) Interest Commencement Date: [●]
8. Maturity Date: [●]
9. Interest Basis: [[●]% Fixed Rate]  
[[●]+/-[●]% Floating Rate]  
[Zero Coupon]  
(See paragraph [13/14/15] below)
10. Redemption/Payment Basis: [Redemption at par]
11. Put/Call Options: [Issuer Call]  
[Issuer Maturity Par Call]  
[Investor Put]  
[Change of Control Put]  
[(further particulars specified below at paragraphs 16-19)]
12. [Date [Board] approval for issuance of Notes obtained: [●]]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
  - (i) Rate[(s)] of Interest: [●]% per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with Business Day Convention/not adjusted]
  - (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount



(iv)	Broken Amount(s):	<input type="checkbox"/> per Calculation Amount payable on the Interest Payment Date falling [in/on] <input type="checkbox"/>
(v)	Day Count Fraction:	[Actual/Actual (ICMA) / 30/360 / Actual/365 (Fixed) / other]
(vi)	Determination Dates:	<input type="checkbox"/> in each year/Not Applicable ( <i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where day Count Fraction is Actual/Actual (ICMA))</i> )
(vii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
14.	<b>Floating Rate Note Provisions</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Interest Period(s):	<input type="checkbox"/> [, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
(ii)	Specified Interest Payment Dates:	<input type="checkbox"/> in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
(iii)	Interest Period Date:	[Not Applicable]/ <input type="checkbox"/> in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
(v)	Additional Business Centre(s):	[Not Applicable/ <input type="checkbox"/>
(vi)	Manner in which the Rate(s) of Interest is/ are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	<input type="checkbox"/>
(viii)	Screen Rate Determination:	[Applicable/Not Applicable]
	• Reference Rate:	<input type="checkbox"/> month LIBOR/EURIBOR]
	• Interest Determination Date(s):	<input type="checkbox"/>
	• Relevant Screen Page:	<input type="checkbox"/>
(ix)	Reference Rate Replacement:	[Applicable/Not Applicable]
(x)	ISDA Determination:	[Applicable/Not Applicable]
	• Floating Rate Option:	<input type="checkbox"/>

	• Designated Maturity:	[●]
	• Reset Date:	[●]
(xi)	Linear Interpolation:	[Not Applicable/Applicable—the Rate of Interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation ( <i>specify for each short or long interest period</i> )]
(xii)	Margin(s):	[+/-][●]% per annum
(xiii)	Minimum Rate of Interest:	[●]% per annum
(xiv)	Maximum Rate of Interest:	[●]% per annum
(xv)	Day Count Fraction:	[●]
15.	<b>Zero Coupon Note Provisions</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) [Amortisation/Accrual] Yield:	[●]% per annum
	(ii) Reference Price:	[●]
	(iii) Day Count Fraction in relation to Early Redemption Amounts:	[[30/360][Actual/360][Actual/365]]
<b>PROVISIONS RELATING TO REDEMPTION</b>		
16.	<b>Issuer Call</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
17.	<b>Issuer Maturity Par Call</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	Maturity Par Call Period:	From (and including) [●] to (but excluding) the Maturity Date.
18.	<b>Investor Put</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
19.	<b>Change of Control Put</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
	Change of Control Redemption Amount(s):	[●] per Calculation Amount

20. **Early Redemption Amount**  
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption: [●] per Calculation Amount
21. **Final Redemption Amount** [●] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. **Form of Notes** [Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Global Note]
23. **Additional Financial Centre(s)** [Not Applicable/[●]]
24. **Provisions applicable to Renminbi Notes** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Renminbi Settlement Centre(s): [Not Applicable/[●]]
- (ii) Relevant Currency: [Not Applicable/[●]]
- (ii) Renminbi Currency Event: [Applicable/Not Applicable]
- (iv) Relevant Spot Rate Screen Pages for Renminbi Currency Event:
- (a) Relevant Spot Rate Screen Page (Deliverable Basis): [Not Applicable/[●]]
- (b) Relevant Spot Rate Screen Page (Non-deliverable Basis): [Not Applicable/[●]]
- (v) Party responsible for calculating the Spot Rate Renminbi Currency Event: [[●] (the “**Calculation Agent**”)]/[Not Applicable]

#### THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from [Not Applicable/[●]]. [The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [Not Applicable/[●]], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised]

## PART B—OTHER INFORMATION

### 1. LISTING

- (i) Listing: [London Stock Exchange plc/]
- (ii) Admission to trading [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [●].]
- (iii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

- Ratings: [[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [Moody's: [●]]
- [Fitch: [●]]
- [Other: [●]]
- [Not Applicable]

### 3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

*[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

### 4. [REASON[S] FOR THE OFFER]

*[If other than for general corporate purposes]*

### 5. [Fixed Rate Notes only—YIELD]

- Indication of yield: [●]% per annum [on a [[semi-]annual]/[quarterly] basis]
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

### 6. DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-Syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/[●]]
- (iii) Date of Subscription Agreement: [●]
- (iv) Stabilising Manager(s) (if any): [Not Applicable/[●]]
- (v) If non-syndicated, name of relevant Dealer: [Not Applicable/[●]]
- (vi) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

7. **OPERATIONAL INFORMATION**

Common Code:	<input type="checkbox"/>
ISIN:	<input type="checkbox"/>
CUSIP:	<input type="checkbox"/>
CFI:	[See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
FISN:	<input type="checkbox"/> /Not Applicable]
Any clearing system(s) other than [DTC,] Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/ <i>give name(s) and number(s)</i> ]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	<input type="checkbox"/>



## TAXATION

*The following is a general description of certain Saudi Arabian and United States tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, nor does it address the considerations that are dependent on individual circumstances, whether in those jurisdictions or elsewhere. Prospective holders should note that the Issuer is not obligated to update this section for any subsequent changes or modification to the applicable tax laws. Prospective investors in the Notes should consult their own tax advisors as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes 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 Base Prospectus and is subject to any change in law that may take effect after such date.*

### Kingdom of Saudi Arabia Taxation

#### Overview of Saudi tax and zakat law

##### Income Tax

According to the Income Tax Law, a resident company with foreign (i.e., non-GCC) ownership (on its foreign partner's (shareholder's) share) and a non-resident who does business in the Kingdom through a Permanent Establishment (as defined below) are subject to corporate income tax in Saudi Arabia at the rate of 20%. Resident companies which are wholly owned by GCC Persons 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 corresponding to the ownership (legal or beneficial) percentage owned by non-GCC Persons and zakat corresponding to the ownership (legal or beneficial) percentage owned 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 Saudi resident company are subject to zakat and not income tax. In determining the tax/zakat profile, the General Authority for Zakat and Tax ("GAZT") (formerly Department of Zakat and Income Tax ("DZIT")) apply 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 recent amendments to the Income Tax Law have introduced new provisions that may limit the "look-through" approach by GAZT to up to two layers of shareholding above the relevant Saudi Arabian company; such changes have not yet been tested with GAZT to assess their practical application.

Saudi Arabian companies operating in the oil and hydrocarbon production sector are subject to corporate income tax irrespective of the nationality of their shareholders/owners. The Income Tax Law has been recently amended (with effect from 1 January 2017) which revised tax rates applicable to such companies to range from 50% to 85% depending on the level of total capital investment of the relevant company. Companies with capital investment of more than SAR 375 billion (\$100 billion) are subject to 50% corporate income tax, companies with capital investment between SAR 300 billion (\$80 billion) to SAR 375 billion (\$100 billion) are subject to 65% corporate income tax, companies with capital investment between SAR 225 billion (\$60 billion) to SAR 300 billion (\$80 billion) are subject to 75% corporate income tax, while companies with capital investment of less than SAR 225 billion (\$60 billion) are subject to 85% corporate income tax.

In addition, effective from 1 January 2018, a 20% corporate income tax rate applies to companies engaged in the natural gas activities (previously 30%). Companies involved in both oil and hydrocarbons production activities as well as natural gas investment should prepare tax computation for each activity separately.

According to recent amendments to the Income Tax Law, 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 be generally subject to corporate income tax at 20%.

##### Zakat

Zakat is a religious obligation imposed on Muslims under *Shari'ah* to pay a fixed percentage of their wealth for the relief of poverty. The zakat implementing regulations of Saudi Arabia were issued by Ministerial Resolution ("MR") No. 2082, dated 28 February 2017 (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 MR 2216 dated 7/7/1440 in the Hijri calendar (corresponding to 14 March 2019) ("**New Zakat Regulations**"). The New Zakat Regulations are expected to be effective (and replace the existing zakat regulations) for financial years starting 1 January 2019. According to the New Zakat Regulations, zakat is assessed on GCC Persons carrying out

activities in the Kingdom (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) 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, on Saudi Arabian companies wholly owned by such individuals/entities and on the ownership (legal or beneficial) percentage owned by GCC Persons with respect to a company jointly owned by GCC and non-GCC Persons.

As per the New Zakat Regulations, 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 central management of such Permanent Establishment (as set out under Chapter 1—Article 2(4)):

- (1) 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 and made in the Kingdom.
- (2) Where senior executive decisions relating to the Permanent Establishment's functions such as executive directors/deputies' decisions are made in the Kingdom.
- (3) 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 which, in general, comprises equity, loans and provisions reduced by certain deductible investments and fixed assets. Under the Zakat Regulations, investments in debt securities, such as investments in bonds, sukuk, notes, currencies, deposits or forward transactions (whether issued inside or outside Saudi Arabia or whether classified as short term or long term investments) are not deductible from the zakat base for purposes of determining the zakat base.

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.

#### *Withholding Tax*

The Income Tax Law provides for withholding tax (“WHT”) at different rates on payments made to non-resident parties (including those located/tax resident in the GCC other than the Kingdom) by a Saudi tax resident entity from a source of income in Saudi Arabia. WHT is imposed on payments against services and not a sale of goods. Services are defined to mean anything done for consideration other than the purchase and sale of goods and other property. Interest or loan charges paid by Saudi tax residents to non-residents are subject to Saudi WHT at a rate of 5%, unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Application of double tax treaties in the Kingdom may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to WHT after which a refund request of the WHT may be submitted to GAZT or (ii) application of double tax treaties which provides for the possibility of the payor not subjecting the relevant payment to WHT. Both mechanisms require the beneficiary to provide certain documents and forms to GAZT (such as tax residency certificate).

#### ***Certain tax and zakat implications for Noteholders***

##### *GCC Noteholders who are Resident in Saudi Arabia*

Noteholders who are GCC Persons (as defined below) and resident in Saudi Arabia for tax purposes (as defined in Chapter 2—Article 3 of the Income Tax Law) 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 Notes. However, such Noteholders will be subject to zakat in respect of any interest payments received or gain realised in respect of the Notes (to the extent they are legal entities registered for zakat purposes in the Kingdom and not natural persons), including capital gain on sale of Notes. Additionally, the deduction of an investment in the Notes is not permitted to be deducted from the zakat base of such a Noteholder, as stipulated under Chapter 2—Article 4 (second (4c)) of the Zakat Regulations and the current practices of the GAZT.

##### *Non-GCC Noteholders who are Resident in Saudi Arabia*

Noteholders who are non-GCC legal entities and resident in Saudi Arabia 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% on any interest payments received or gain realised in respect of the Notes (subject to potential tax exemption described below), but they will not be subject to any 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).

Noteholders who are non-GCC natural persons and resident in Saudi Arabia 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 Saudi Arabian income tax or zakat on any interest payment received or gain realised in respect of the Notes, according to existing practices of GAZT (as compliance/administration of Income Tax Law is not currently enforced by GAZT).

#### *Noteholders who are not Resident in Saudi Arabia*

Noteholders, either natural persons or legal entities, who are not resident in Saudi Arabia (whether such Noteholders are GCC nationals or non-GCC nationals (including Noteholders resident in the GCC)) and do not have a Permanent Establishment in Saudi Arabia for tax purposes, will be subject to Saudi Arabian WHT on interest income paid to them, unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Application of double tax treaties in the Kingdom may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to WHT after which a refund request of the WHT may be submitted to GAZT or (ii) application of double tax treaties which provides for the possibility of the payor not subjecting the relevant payment to WHT. Both mechanisms require the beneficiary to provide certain documents and forms to GAZT (such as tax residency certificate).

For completeness, as the payment of interest on the Notes will be made through the Paying Agents (as defined in the Conditions) and the relevant clearing systems (as defined in the Conditions), some Noteholders (subject to tax advice sought for specific case and in relevant jurisdictions by the Noteholders) may not be able to prove to their local tax authorities that WHT has been applied to interest payments, and therefore may not be able to obtain the benefit of any applicable double tax treaty relief or credit for tax withheld.

Notwithstanding the above, pursuant to the terms of the Notes, to the extent that any WHT is deducted, the Issuer will generally be obligated to pay such additional amounts as will result in receipt by the Noteholders, after such withholding or deduction, of such amounts as would have been received by them had no such withholding or deduction been required.

Non-resident entities having a Permanent Establishment in Saudi Arabia are subject to Saudi Arabian corporate income tax at the rate of 20% in respect of any interest payments received or gain realised in respect of the Notes and attributable to such Permanent Establishment, but will not be subject to zakat (unless they are non-GCC Persons with a Permanent Establishment in the Kingdom that meet the conditions set out under Chapter 1—Article 2(4) of the New Zakat Regulations).

#### *Indirect and Transfer Taxes*

There are no transfer taxes currently applicable in Saudi Arabia.

Saudi Arabia has introduced value added tax (“VAT”) with an effective date of 1 January 2018 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 exempts interest payments from VAT.

#### *Definitions*

For the purposes of this summary:

- (a) “**GCC**” means the Gulf Cooperation Council, comprising the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates.
- (b) 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;
- (c) Subject to the exceptions stipulated in the Income Tax Law, a “**Permanent Establishment**” of a non-resident in Saudi Arabia 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 Saudi Arabia through a licenced branch is considered to have a Permanent Establishment in Saudi Arabia.

- (d) A Person is “**resident**” in Saudi Arabia 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 Saudi Arabia for a taxable year if such person meets either of the two following conditions:
    - (1) such person has a permanent place of abode in Saudi Arabia and is physically present in Saudi Arabia for a total of not less than 30 days in the taxable year; or
    - (2) such person is physically present in Saudi Arabia for a period of not less than 183 days in the taxable year; and
  - (ii) a company is considered a tax resident in Saudi Arabia during a taxable year if it meets either of the following conditions:
    - (1) it is formed in accordance with the Saudi Companies Law; or
    - (2) its place of central control and management is located in Saudi Arabia.

Noteholders should not be deemed to be Resident in Saudi Arabia solely by reason of holding any Notes.

### **United States Federal Income Taxation**

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders and Non-U.S. Holders (each as defined below) acquiring, holding and disposing of the Notes. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Notes at their “issue price” (as defined below) that will hold the Notes as capital assets (generally, property held for investment).

This discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes. No rulings have been or will be sought from the IRS with respect to the classification of the Notes in general or with respect to any particular Notes.

This discussion does not describe all of the tax consequences that may be relevant in light of a Noteholder’s particular circumstances or to Noteholders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- traders in securities or foreign currencies electing to mark their positions to market;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organisations;
- U.S. expatriates and former long-term residents of the United States;
- persons holding Notes as part of a hedging transaction, “straddle”, conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. Dollar;
- U.S. Holders that will hold Notes in connection with a permanent establishment or fixed base outside of the United States;
- persons required to take certain amounts into income no later than the time such amounts are recognised as income on their financial statements; or
- entities classified as partnerships for U.S. federal income tax purposes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described below. This summary does not address any U.S. federal tax consequences other than U.S. federal income tax consequences, such as the estate tax, gift tax, U.S. state or local tax or non-U.S. tax. This summary also does not address alternative minimum tax consequences, or the Medicare tax on net investment income. Moreover, this summary

deals only with Notes with a term of 30 years or less. Persons considering the purchase of a particular Tranche of Notes should consult the relevant supplement to the Base Prospectus (if any) issued in connection with that Tranche of Notes for any discussion regarding U.S. federal income taxation and should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

To the extent applicable, the tax treatment of certain Notes such as Notes that are not principal protected will be specified in the relevant supplement to the Base Prospectus issued in connection with those Notes. This summary does not discuss bearer notes.

As used herein, the term “**U.S. Holder**” means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) if such trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The term “**Non-U.S. Holder**” means a beneficial owner of Certificates that is not a United States holder. If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult with their tax advisors regarding the U.S. federal tax consequences of an investment in the Notes.

#### ***Special Rules Applicable to Certain Accrual Method Taxpayers***

Pursuant to recent legislation, for taxable years beginning after 31 December 2017 (or, in the case of Notes issued with original issue discount, taxable years beginning after 31 December 2018), an accrual method taxpayer that reports revenues on an “applicable financial statement” generally must recognise income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in the applicable financial statements of the taxpayer. Thus, this rule could potentially require such a taxpayer to recognise income for U.S. federal income tax purposes with respect to Notes prior to the time such income would be recognised pursuant to the rules described below. U.S. Holders should consult their tax advisors regarding the potential applicability of these rules to their investment in the Notes.

#### ***Payments of Stated Interest***

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes, *provided* that the interest is “qualified stated interest” (as defined below).

“Qualified stated interest” is stated interest that is unconditionally payable, or constructively received under Section 451 of the Code, in cash or property (other than in debt instruments of the issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest. In addition, interest on a Floating Rate Note that is unconditionally payable, or will be constructively received under Section 451 of the Code, in cash or property (other than debt instruments issued by the Issuer) at least annually will constitute “qualified stated interest” if the Note is a VRDI under the rules described below and the interest is payable at a single “qualified floating rate” or single “objective rate” (each as defined below). If the Note is a VRDI but the interest is payable other than at a single qualified floating rate or at a single objective rate, special rules apply to determine the portion of such interest that constitutes “qualified stated interest”. See “—*Original Issue Discount—Floating Rate Notes that are VRDIs*” below. Interest income earned by a U.S. Holder with respect to a Note will generally constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder’s foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to short-term Notes, original issue discount Notes, contingent payment debt instruments and foreign currency Notes are described under “—*Short-Term Notes*”, “—*Original Issue Discount*”, “—*Contingent Payment Debt Instruments*” and “—*Foreign Currency Notes*”.



**Definition of Variable Rate Debt Instrument.** A Note is a VRDI if all of the four following conditions are met. First, the “issue price” of the Note (as described below) must not exceed the total noncontingent principal payments by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date (or, in the case of a Note that provides for payment of any amount other than qualified stated interest before maturity, its weighted average maturity) and (ii) 15% of the total noncontingent principal payments. Second, the Note must generally provide for stated interest (or its equivalent) (compounded or paid at least annually) at (a) one or more qualified floating rates, (b) a single fixed rate and one or more qualified floating rates, (c) a single objective rate or (d) a single fixed rate and a single objective rate that is a “qualified inverse floating rate” (as defined below). Third, the Note must provide that a qualified floating rate or objective rate in effect at any time during the term of the Note is set at the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day. Fourth, the Note may not provide for any principal payments that are contingent except as provided in the first requirement set forth above.

Subject to certain exceptions, a variable rate of interest on a Note is a “qualified floating rate” if variations in the value of the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated. A variable rate will be considered a qualified floating rate if the variable rate equals (i) the product of an otherwise qualified floating rate and a fixed multiple (*i.e.*, a spread multiplier) that is greater than 0.65, but not more than 1.35 or (ii) an otherwise qualified floating rate (or the product described in clause (i)) plus or minus a fixed rate (*i.e.*, a spread). If the variable rate equals the product of an otherwise qualified floating rate and a single spread multiplier greater than 1.35 or less than or equal to 0.65, however, such rate will generally constitute an objective rate, described more fully below. A variable rate will not be considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (*i.e.*, a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as at the issue date to cause the yield on the Note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor or governor that is fixed throughout the term of the Note).

Subject to certain exceptions, an “objective rate” is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information that is neither within the Issuer’s control (or the control of a related party) nor unique to the Issuer’s circumstances (or the circumstances of a related party). Notwithstanding the first sentence of this paragraph, a rate on a Note is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note’s term. An objective rate is a “qualified inverse floating rate” if (a) the rate is equal to a fixed rate minus a qualified floating rate and (b) the variations in the rate can reasonably be expected to reflect inversely contemporaneous variations in the cost of newly borrowed funds (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate).

Unless otherwise provided in the relevant supplement to the Base Prospectus (if any) issued in connection with a particular Tranche of Notes, it is expected, and this discussion assumes, that a Floating Rate Note will qualify as a VRDI. If a Floating Rate Note does not qualify as a VRDI, then the Floating Rate Note will generally be treated as a contingent payment debt instrument, as discussed below under “—Contingent Payment Debt Instruments”.

### **Original Issue Discount**

Except in the case of a short-term Note, a Note that has an “issue price” that is less than its “stated redemption price at maturity” will be considered to have been issued with OID for U.S. federal income tax purposes (and will be referred to as an “original issue discount Note”) unless the Note satisfies a *de minimis* threshold (as described below). The “issue price” of a Note generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The “stated redemption price at maturity” of a Note generally will equal the sum of all payments required to be made under the Note other than payments of qualified stated interest.

If the difference between a Note’s stated redemption price at maturity and its issue price is less than a *de minimis* amount, *i.e.*, 1/4 of 1% of the stated redemption price at maturity multiplied by the number of complete years to maturity (or, in the case of a Note that provides for payment of any amount other than qualified stated interest prior to maturity, the weighted average maturity of the Note), the Note will not be considered to have OID. U.S. Holders of Notes with a *de minimis* amount of OID will include this OID in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

A U.S. Holder of original issue discount Notes will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including qualified stated interest, OID, *de minimis* OID, and unstated interest, as adjusted by any amortisable bond premium) in accordance with a constant yield method based on the compounding of interest, and may revoke such election only with the permission of the IRS (a "**constant yield election**").

The Issuer may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Issuer to redeem, a Note prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, the yield on the Note would be lower than its yield to maturity. If the U.S. Holders have an unconditional option to require the Issuer to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Note would be higher than its yield to maturity. If this option is not in fact exercised, the Note would be treated, solely for purposes of calculating OID, as if it were redeemed, and a new Note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of an original issue discount Note is defined as the sum of the issue price of the Note and the aggregate amount of previously accrued OID, less any prior payments other than payments of qualified stated interest.

*Fixed Rate Notes.* In the case of a Fixed Rate Note that is an original issue discount Note, U.S. Holders of such Note will be required to include OID in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received.

*Floating Rate Notes that are VRDIs.* In the case of a Floating Rate Note that is a VRDI and that provides for interest at a single variable rate, the amount of qualified stated interest and the amount of OID, if any, includible in income during a taxable year are determined under the rules applicable to Fixed Rate Notes (described above) by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or a qualified inverse floating rate, the value, as at the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), the rate that reflects the yield that is reasonably expected for the Note. Qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid or accrued during an accrual period exceeds (or is less than) the interest assumed to be paid or accrued during the accrual period.

If a Note that is a VRDI does not provide for interest at a single variable rate as described above, the amount of interest and OID accruals are determined by constructing an equivalent fixed rate debt instrument, as follows:

- *First*, in the case of an instrument that provides for stated interest at one or more qualified floating rates or at a qualified inverse floating rate and, in addition, at a fixed rate (other than a fixed rate that is treated as, together with a variable rate, a single qualified floating rate or objective rate), replace the fixed rate with a qualified floating rate (or qualified inverse floating rate) such that the fair market value of the instrument, so modified, as at the issue date would be approximately the same as the fair market value of the unmodified instrument;
- *Second*, determine the fixed rate substitute for each variable rate provided by the Note. The fixed rate substitute for each qualified floating rate provided by the Note is the value of that qualified floating rate on the issue date. If the Note provides for two or more qualified floating rates with different intervals between interest adjustment dates (for example, the 30-day commercial paper rate and quarterly LIBOR), the fixed rate substitutes are based on intervals that are equal in length (for example, the 90-day commercial paper rate and quarterly LIBOR, or the 30-day commercial paper rate and monthly LIBOR). The fixed rate substitute for an objective rate that is a qualified inverse floating rate is the value of the qualified inverse floating rate on the issue date. The fixed rate substitute for an objective rate (other than a qualified inverse floating rate) is a fixed rate that reflects the yield that is reasonably expected for the Note;
- *Third*, construct an equivalent fixed rate debt instrument that has terms that are identical to those provided under the Note, except that the equivalent fixed rate debt instrument provides for the fixed rate substitutes determined in the second step, in lieu of the qualified floating rates or objective rate provided by the Note;
- *Fourth*, determine the amount of qualified stated interest and OID for the equivalent fixed rate debt instrument under the rules (described above) for Fixed Rate Notes. These amounts are taken into account as

if the U.S. Holder held the equivalent fixed rate debt instrument. See “—*Payments of Stated Interest*” and “—*Original Issue Discount—Fixed Rate Notes*” above; and

- *Fifth*, make appropriate adjustments for the actual values of the variable rates. In this step, qualified stated interest or, in certain circumstances, OID allocable to an accrual period is increased (or decreased) if the interest actually accrued or paid during the accrual period exceeds (or is less than) the interest assumed to be accrued or paid during the accrual period under the equivalent fixed rate debt instrument.

#### ***Amortisable Bond Premium***

If a U.S. Holder purchases a Note for an amount in excess of the sum of the remaining amounts payable on the Note (other than qualified stated interest), the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to such excess and will not be required to include any OID in gross income. The U.S. Holder may elect to amortise this premium as an offset to qualified stated interest, using a constant yield method, over the remaining term of the Note. Special rules may apply in the case of a Note that is subject to optional redemption. A U.S. Holder who elects to amortise bond premium must reduce its tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under “—*Original Issue Discount*”) for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder’s debt instruments with amortisable bond premium.

#### ***Sale, Exchange, Retirement or the Taxable Disposition of the Notes***

Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. Holder will generally recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange, retirement or other taxable disposition and the U.S. Holder’s adjusted tax basis in the Note. A U.S. Holder’s adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of OID included in the Holder’s gross income and decreased by any payment received from the Issuer other than a payment of qualified stated interest and any amortisable bond premium taken into account. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder’s foreign tax credit limitation and, as a result, the use of foreign tax credits relating to any non-U.S. income tax imposed upon gains in respect of the Notes may be limited. For these purposes, the amount realised does not include any amount attributable to accrued interest on the Note. Amounts attributable to accrued interest (including OID) are treated as interest as described under “—*Payments of Stated Interest*” and “—*Original Issue Discount*”.

Except as described below, gain or loss realised on the sale, exchange, retirement or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other taxable disposition the U.S. Holder has held the Note for more than one year. Exceptions to this general rule apply, in the case of a short-term Note, to the extent of any accrued discount not previously included in the U.S. Holder’s taxable income. See “*Original Issue Discount*”. In addition, other exceptions to this general rule apply in the case of short-term Notes, foreign currency Notes, and contingent payment debt instruments. See “—*Short-Term Notes*”, “—*Foreign Currency Notes*” and “—*Contingent Payment Debt Instruments*”. The deductibility of capital losses is subject to limitations.

#### ***Short-Term Notes***

A short-term Note will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash method U.S. Holder of a short-term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so, with the consequence that the reporting of such income is deferred until it is received. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Notes in an

amount not exceeding the accrued discount (which includes interest that is payable but that has not been included in gross income) interest income with respect to such short-term Note until the accrued discount is included in income. A U.S. Holder's tax basis in a short-term Note is increased by the amount included in such holder's income on such a Note.

### ***Contingent Payment Debt Instruments***

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including certain Floating Rate Notes that do not qualify as VRDIs) they will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must accrue interest for U.S. federal income tax purposes based on a "comparable yield" and account for differences between actual payments on the Note and the Note's "projected payment schedule" as described below. The comparable yield is determined by the Issuer at the time of issuance of the Notes and, in general, equals the annual yield an issuer would pay, as at the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to the contingent payment debt instrument. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

***Neither the comparable yield nor the projected payment schedule would constitute a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.***

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments in respect of an contingent payment debt instrument, unless the U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of its method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment debt instrument (as set forth below). As such, a U.S. Holder may be required to include interest in income each year in excess of any stated interest payments actually received in that year, if any.

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, *i.e.*, the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, *i.e.*, the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a U.S. Holder would otherwise be required to include in income in the taxable year;
- to the extent of any excess, will give rise to an ordinary loss equal to the extent of the U.S. Holder's interest income on the contingent debt obligation during prior taxable years, reduced to the extent such interest was offset by prior net negative adjustments; and
- to the extent of any excess after the application of the previous two bullet points, will be carried forward as a negative adjustment to offset future interest income with respect to the contingent debt obligation or to reduce the amount realised on a sale, exchange or retirement of the contingent debt obligation.

Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange, retirement or other taxable disposition of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange, retirement or other taxable disposition and the U.S. Holder's adjusted basis in the contingent



payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a U.S. Holder recognises loss above certain thresholds, the U.S. Holder may be required to file a disclosure statement with the IRS (as described under "*Other Reporting Requirements*").

Special rules will apply if one or more contingent payments on a contingent debt obligation become fixed. For purposes of the preceding sentence, a payment (including an amount payable at maturity) will be treated as fixed if (and when) all remaining contingencies with respect to it are remote or incidental within the meaning of the contingent debt regulations. A U.S. Holder's tax basis in the contingent debt obligation and the character of any gain or loss on the sale of the contingent debt obligation would also be affected. U.S. Holders are urged to consult their tax advisers concerning the application of these special rules.

### ***Foreign Currency Notes***

The following discussion summarises the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of Notes that are denominated in a specified currency other than the U.S. Dollar or the payments of interest or principal which are payable in a currency other than the U.S. Dollar ("**foreign currency Notes**"). However, the U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of currency-linked Notes and non-functional currency contingent payment debt instruments are not discussed herein and, if applicable, will be discussed in a supplement to the Base Prospectus issued in connection with the issuance of such Notes and instruments.

The rules applicable to foreign currency Notes could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Note to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Notes are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Note will be required to include in income the U.S. Dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. Dollars at the time, and this U.S. Dollar value will be the U.S. Holder's tax basis in the foreign currency. A cash method U.S. Holder who receives a payment of qualified stated interest in U.S. Dollars pursuant to an option available under such Note will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. Holder will be required to include in income the U.S. Dollar value of the amount of interest income (including OID, but reduced by amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Note during an accrual period. The U.S. Dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. Dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a U.S. Holder receives U.S. Dollars, the amount of the payment in respect of the accrual period) and the U.S. Dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue OID.

An accrual method U.S. Holder may elect to translate interest income (including OID) into U.S. Dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.



OID and amortisable bond premium on a foreign currency Note are to be determined in the relevant foreign currency.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. In that event, amortisable bond premium will be computed in foreign currency. A U.S. Holder making the election to amortise bond premium may recognise exchange gain or loss each period equal to the difference between the U.S. Dollar value of bond premium with respect to such period determined on the date the interest attributable to such period is received and the U.S. Dollar value of such amortised bond premium determined on the date of the acquisition of the Notes. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium (subject to the treatment of foreign currency gain or loss below).

A U.S. Holder's adjusted tax basis in a foreign currency Note will generally equal the "U.S. Dollar cost" (as defined herein) of the Note to such holder increased by any previously accrued OID and decreased by any amortised premium and cash payments on the Note other than qualified stated interest. The "U.S. Dollar cost" of a Note purchased with foreign currency will generally be the U.S. Dollar value of the purchase price based on the spot rate of exchange on the date of purchase (or based on the spot rate of exchange on the settlement date of the purchase, in the case of Notes traded on an established securities market that are purchased by a cash basis U.S. Holder or an electing accrual basis U.S. Holder). If a U.S. Holder receives foreign currency on a sale, exchange, retirement, or other taxable disposition of a Note, the amount realised generally will be based on the U.S. Dollar value of such foreign currency translated at the spot rate on the date of disposition. In the case of a Note that is considered to be traded on an established securities market, a cash basis U.S. Holder and, if it so elects, an accrual basis U.S. Holder, will determine the U.S. Dollar value of such foreign currency by translating such amount at the spot rate on the settlement date of the disposition. The special election available to accrual basis U.S. Holders in regard to the purchase and disposition of Notes traded on an established securities market must be applied consistently to all debt instruments held by the U.S. Holder and cannot be changed without the consent of the IRS. An accrual basis U.S. Holder that does not make the special settlement date election), a U.S. Holder will recognise exchange gain or loss to the extent that there are exchange rate fluctuations between the disposition date and the settlement date.

Gain or loss realised upon the sale, exchange, retirement or other taxable disposition of a foreign currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. Dollar value of the foreign currency purchase price of the Note, determined on the date the Note is disposed of, and (ii) the U.S. Dollar value of the foreign currency purchase price of the Note, determined on the date the U.S. Holder acquired the Note (adjusted, in each case, for any amortised bond premium that has been taken into account prior to the date of the sale, exchange or retirement). Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange, retirement or other taxable disposition of the foreign currency Note. The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder or the "qualified business unit" of the U.S. Holder on whose books the Note is properly reflected. Any gain or loss realised by these U.S. Holder in excess of the foreign currency gain or loss will be capital gain or loss except that any gain will be treated as ordinary income, in the case of short term Note, to the extent of any discount not previously included in the U.S. Holder's income. U.S. Holders should consult their tax advisors with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

### ***Non-U.S. Holders***

Subject to the discussion below under "*Backup Withholding and Information Reporting*", a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the U.S.; or (ii) in the case of any gain realised on the sale or exchange of a Note by an individual Non-U.S. Holder, that Holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

### ***Backup Withholding and Information Reporting***

Information returns may be filed with the IRS in connection with payments on the Notes (including any accrued OID) and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding.

Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle them to a refund, *provided* that the required information is timely furnished to the IRS.

### ***Other Reporting Requirements***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS by attaching Form 8886 to their tax returns and retaining a copy of all documents and records relating to the transaction. The scope and application of these rules is not entirely clear and whether an investment in a Note constitutes a "reportable transaction" for any holder depends on the holder's particular circumstances. For example, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds certain thresholds. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Notes.

Certain U.S. Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisors about any additional reporting obligations that may apply as a result of their acquisition, ownership and disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

### ***Foreign Account Tax Compliance Act***

Pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, commonly known as FATCA and subject to the proposed regulations discussed below, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments", a term not defined as at the date of this Base Prospectus) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (IGAs), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register (the "grandfathering date") generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). Under recently proposed regulations, any withholding on foreign passthru payments on Notes that are not otherwise grandfathered would apply to passthru payments made on or after the date that is two years after the date of publication in the Federal Register of applicable final regulations defining foreign passthru payments. Taxpayers generally may rely on these proposed regulations until final regulations are issued. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts or indemnify any person as a result of any FATCA withholding.

## CLEARING AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) in effect as at the date of this Base Prospectus. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-Entry Systems

#### DTC

The Notes are eligible to be held in book-entry form in DTC, whether as part of the initial distribution of the Notes or in the secondary market.

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly owned subsidiary of The Depository Trust and Clearing Corporation (“**DTCC**”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**” and, together with Direct Participants, “**Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**DTC Rules**”), DTC makes book-entry transfers of Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“**DTC Notes**”), as described below, and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“**Beneficial Owners**”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Beneficial Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct Participant’s and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC’s nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such DTC Notes

are credited, which may or may not be the Beneficial Owners. The Participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Notes for definitive Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Transfer Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Beneficial Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Notes from DTC as described below.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and



Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

### **Book-entry ownership of and payments in respect of DTC Notes**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Global Note accepted in its book-entry settlement system. Upon the issue of any such Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer.

Ownership of beneficial interests in a Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

### **Transfers of Notes represented by Global Notes**

Transfers of any interests in Notes represented by a Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under “*Transfer Restrictions*”, cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other hand, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (“**Custodian**”) with whom the relevant Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. In the case of cross-market



transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time. None of the Issuer, the Trustee, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers of Notes who are in the United States or who are U.S. persons are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Notes (other than a person purchasing an interest in a Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Global Note to another or from global to definitive form or *vice versa*, will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A; or (b) it is outside the United States and is not a U.S. person;
- (ii) that it, and each account for which it is purchasing, will hold and transfer at least the minimum denomination of the Notes;
- (iii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iv) that, it will resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a one or more QIBs in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (v) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iv) above, if then applicable;
- (vi) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vii) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING

THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (viii) that the Notes which are registered in the name of a nominee of DTC will bear an additional legend to the following effect unless otherwise agreed to by the Issuer:

“UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IN EXCHANGE FOR THIS GLOBAL SECURITY OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND.”;

- (ix) that if it holds an interest in a Regulation S Global Note, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only: (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or (ii) to a QIB in compliance with Rule 144A; and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE TRUST DEED AND

THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”;

- (x) that (A) either (i) no portion of the assets used by it to acquire and hold the Notes or any interest therein constitutes assets of (1) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (2) other “plans” (as defined in Section 4975 of the Code) or arrangements that are subject to Section 4975 of the Code, or (3) an entity whose underlying assets include “plan assets” within the meaning of 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA) by reason of such employee benefit plan’s or other plan or arrangement’s investment in the entity (each such plan, arrangement or entity described in the foregoing clauses (1), (2) or (3), a “**Plan**”), and it is not (and is not deemed to be), and will not be (or be deemed to be), a governmental plan, church plan, non-U.S. plan or other plan subject to any federal, state, local or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code (“**Similar Law**”), or (ii) the purchase and holding of the Notes do not and will not constitute or otherwise result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a similar violation of Similar Law and (B) it will not sell or otherwise transfer such Notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its purchase and holding of such Note or any interest therein;
- (xi) Each Plan (including, without limitation, an individual retirement account), by its purchase of a Note, shall also be deemed to have represented that (i) none of the Issuer Parties has provided any investment recommendation or investment advice on which it, or any fiduciary or other person investing the assets of the Plan (“**Plan Fiduciary**”), has relied in connection with its decision to invest in the Notes, and none of them is giving advice in a fiduciary capacity or otherwise acting as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, to the Plan or the Plan Fiduciary in connection with the Plan’s acquisition and holding of the Notes or any interest therein and (ii) the Plan Fiduciary is exercising its own independent judgment in evaluating the investment in the Notes; and
- (xii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than \$200,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a nonbank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least \$200,000 (or its foreign currency equivalent) of Notes.

## SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of the Arrangers and any other Dealers appointed under the terms of a dealer agreement dated 1 April 2019 (the “**Dealer Agreement**”). The arrangements under which any particular Tranche of Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealer Agreement. Any such arrangement will, among other things, extend to those matters stated under “*Form of the Notes*”, “*Terms and Conditions of the Notes*” and “*Form of Final Terms*” and will make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes. The Dealer Agreement provides that the obligations of the Dealers to subscribe for the Notes are subject to certain conditions precedent. In the Dealer Agreement, the Issuer has agreed to reimburse the Arrangers and the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Arrangers and the Dealers against certain liabilities incurred by them in connection therewith.

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and/or other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries and affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its subsidiaries and affiliates. Certain of the Dealers and their affiliates have a lending relationships with the Issuer and certain of its subsidiaries and affiliates and, in this connection, routinely hedge their credit exposure to these entities consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in securities issued by the Issuer and certain of its subsidiaries and affiliates, including, potentially, the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of the Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

### United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any Notes: (i) as part of its distribution at any time, or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer, by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes (other than a sale of Notes pursuant to Rule 144A) during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Dealer Agreement provides that the Dealers may, directly or through their respective U.S. broker dealer affiliates only, arrange for the offer and resale of Notes within the United States only to QIBs in reliance on Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is \$200,000 (or the approximate equivalent thereof in any other currency).



In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

## Canada

The Notes may be sold 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 Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus or any applicable Final Terms (including any amendment thereto) 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* ("**NI 33-105**"), so long as a concurrent distribution of the Notes is made to investors in the United States, the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering. In the event the Notes are distributed to investors in Canada without a concurrent distribution of the Notes to investors in the United States, the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest may apply.

## Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive 2002/92/EC, as amended or superseded, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

If the applicable Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, (i) the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and (ii) the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended or superseded) and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving, the United Kingdom.

### **Switzerland**

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in any Notes. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other exchange or regulated facility in Switzerland, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

### **Kingdom of Saudi Arabia**

Any investor in Saudi Arabia or who is a Saudi person (a “**Saudi Investor**”) who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of the “Rules on the Offer of Securities and Continuing Obligations” as issued by the board of the CMA resolution no. 3-123-2017 dated 9/4/1439 in the Hijri calendar (corresponding to 27 December 2017) as amended by the board of the CMA resolution no. 3-45-2018 dated 7/8/1439 in the Hijri calendar (corresponding to 23 April 2018) (the “**Rules on the Offer of Securities and Continuing Obligations**”), made through an authorised person licensed by the CMA to carry on the securities activity of arranging and following a notification to the CMA in accordance with the Rules on the Offer of Securities and Continuing Obligations.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will be made in compliance with the Rules on the Offer of Securities and Continuing Obligations, as amended and/or supplemented from time to time.

## **Kingdom of Bahrain**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Kingdom of Bahrain 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 U.S.\$1,000,000 or more, excluding that person’s principal place of residence;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$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).

## **Kuwait**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no Notes will be offered in Kuwait unless all necessary approvals from the Kuwait Capital Markets Authority pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) together with the various resolutions, regulations, guidance principles 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 offering, marketing, and sale, of the Notes. For the avoidance of doubt, no Notes shall be offered, marketed and/or sold in Kuwait except on a private placement basis to Professional Clients (as defined in Module 1 of the executive bylaws of Law No. 7 of 2010 (each as amended)).

## **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

## **Dubai International Financial Centre**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Market Rules (MKT) Module of the Dubai Financial Services Authority (the “**DFSA**”) rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the “**FIEA**”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold Notes and will not, directly or indirectly, offer or sell any Notes 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 re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan.

## **Hong Kong**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than: (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571)

of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, 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 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## **South Korea**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Notes have not been and will not be offered, sold or delivered, directly or indirectly, in South Korea or to or for the account or benefit of any South Korean resident (as such term is defined in the Foreign Exchange Transaction Law of South Korea) except as permitted under applicable South Korean laws and regulations.

Furthermore, a holder of Notes may be prohibited from offering, delivering or selling any Notes, directly or indirectly, in South Korea or to any South Korean resident for a period of one year from the date of issuance of Notes except as permitted under applicable South Korean laws and regulations.

Each Dealer, including each further Dealer appointed under the Programme, has undertaken to use commercially reasonable best measures as a Dealer in the ordinary course of its business so that any securities dealer to which it sells Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

## **Singapore**

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”), and the Notes will be offered pursuant to exemptions under the SFA. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) 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) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes 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 (each 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 Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) 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;
- (2) where no consideration is or will be given for the transfer;

- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time, including by such of its subsidiary legislation as may be applicable at the relevant time.

**Notification under Section 309B(1)(c) of the SFA**—In connection with Section 309B of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the SFA), that all Notes shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### Malaysia

This Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the “CMSA”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, the Notes have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time. Residents of Malaysia may be required to obtain relevant regulatory approvals, including approval from the Controller of Foreign Exchange to purchase the Notes. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Notes as aforesaid without the necessary approvals being in place.

### Indonesia

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will not be offered or sold directly or indirectly, in Indonesia or to any citizen of Indonesia (wherever they are domiciled) or to any resident of Indonesia in a manner that constitutes a public offering under the laws and regulations of Indonesia (including Law Number 8 of 1995 regarding Capital Markets) and that this Base Prospectus will not be distributed in Indonesia or passed on in a manner which constitutes a public offering in Indonesia under the laws and regulations of Indonesia (including Law Number 8 of 1995 regarding Capital Markets).

### Brunei

This Base Prospectus has not been and will not be registered, delivered to, licensed or permitted by the Autoriti Monetari Brunei Darussalam with the Authority designated under the Brunei Darussalam Securities Markets Order (the “SMO”) nor has it been registered with the Registrar of Companies, Registrar of International Business Companies. As such the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of Notes be circulated or distributed, whether directly or indirectly, to any person in Brunei other than: (a) to an accredited investor under Section 20 of the SMO; (b) an expert investor under Section 20 of the SMO; or (c) an institutional investor under Section 20 of the SMO, and in accordance with the conditions specified in Section 117 of the SMO.

This Base Prospectus is for informational purposes only and does not constitute an invitation or offer to the public. It must not be distributed or redistributed to and may not be relied upon or used by any person in Brunei other than the person to whom it is directly communicated: (i) in accordance with the conditions of section 21(3) of the International Business Companies Order 2000; or (ii) whose business or part of whose business is in the buying and selling of shares within the meaning of section 308(4) of the Companies Act (Cap. 39).



Any offers, acceptances, subscription, sales and allotments of the Notes shall be made outside Brunei. Nothing in this Base Prospectus shall constitute legal, tax, accounting or investment advice. The recipient should independently evaluate any specific investment with consultation with professional advisors in law, tax, accounting and investments.

### **The People's Republic of China**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the People's Republic of China (the “**PRC**”) (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) as part of the initial distribution of the Notes.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

Neither the Issuer nor the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the relevant subscription agreement.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes by the Issuer have been duly authorised by a resolution of the Board of Directors of the Issuer dated 14 March 2019.

### Listing and Admission to Trading

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted for listing on the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of the Global Note representing the Notes of that Tranche. The listing of the Programme in respect of Notes to be issued under the Programme during the 12-month period from the date of this Base Prospectus is expected to be granted on or around 1 April 2019.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, physical copies of the following documents will, when published, be available for inspection and/or collection by Noteholders from the registered office of the Issuer and from the specified office of the Principal Paying Agent, for the time being in Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom:

- (i) the constitutional documents of the Issuer (with an English translation thereof);
- (ii) the Financial Statements;
- (iii) the most recently published audited consolidated financial statements of the Issuer, in each case together with any audit or review reports prepared in connection therewith;
- (iv) the Agency Agreement, the Trust Deed and the forms of the Global Notes and the Notes in definitive form;
- (v) a copy of this Base Prospectus; and
- (vi) any future base prospectuses, information memoranda, applicable Final Terms (save that the applicable Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a Base Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) and supplements to this Base Prospectus and any other documents incorporated herein or therein by reference.

The English language translations of the constitutional documents of the Issuer are accurate and direct translations of the original foreign language documents. In the event of a discrepancy between the English language translation and the foreign language version, the foreign language version will prevail.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes to be accepted for trading in book entry form by DTC. The CUSIP number for each Tranche of such Notes, together with the relevant ISIN and (if applicable) Common Code, will also be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy L-1885 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### Conditions for Determining Price

The price and amount of Notes to be issued from time to time under the Programme will be determined by the Issuer and the relevant Dealers at the time of issue in accordance with prevailing market conditions.

**Significant or Material Change**

There has been no significant change in the financial or trading position, and no material adverse change in the prospects of the Issuer, since 31 December 2018.

There has been no significant change in the financial or trading position of, and no material change in the prospects of, the Issuer and its subsidiaries taken as a whole since 31 December 2018.

**Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus that may have, or have in such period had, a significant effect on the Issuer's financial condition or profitability.

**Auditors**

The current auditors of the Company are PricewaterhouseCoopers Public Accountants. PricewaterhouseCoopers Public Accountants is a member of the Chamber of Auditors of the Kingdom of Saudi Arabia, the professional body that oversees audit firms in the Kingdom of Saudi Arabia. The Company's Financial Statements included in this Base Prospectus have been audited by PricewaterhouseCoopers Public Accountants, independent auditors, as stated in their audit reports appearing herein. The business address of PricewaterhouseCoopers Public Accountants is c/o Saudi Aramco, P.O. Box 1659, Dhahran 31311, Kingdom of Saudi Arabia.

**Expert**

Certain information in this Base Prospectus with respect to crude oil and condensate and natural gas reserves as at 31 December 2017 is derived from the report of D&M, an internationally recognised firm of independent reservoir engineers, and has been included herein upon the authority of said firm as an expert with respect to the matters covered by such report. D&M has given and not withdrawn its written consent to the issue of this Base Prospectus with the inclusion herein of its name and all references thereto. The letter of D&M attached hereto as Appendix C has been prepared at the request of the Company.

**Websites and Web Links**

The websites and/or web links referred to in this Base Prospectus are included for information purposes only and the content of such websites or web links is not incorporated into, and does not form part of, this Base Prospectus.

**Dealers Transacting with the Issuer**

Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and/or other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries and affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its subsidiaries and affiliates. Certain of the Dealers and their affiliates have a lending relationship with the Issuer and certain of its subsidiaries and affiliates and, in this connection, routinely hedge their credit exposure to these entities consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities issued by the Issuer and its subsidiaries and affiliates, including, potentially, the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## APPENDIX A—GLOSSARY OF DEFINED TERMS

<b>2017 Financial Statements</b> .....	The audited consolidated financial statements of the Company as at and for the year ended 31 December 2017 (with comparative data as at and for the year ended 31 December 2016) prepared in accordance with IFRS.
<b>2018 Financial Statements</b> .....	The audited consolidated financial statements of the Company as at and for the year ended 31 December 2018 (with comparative data as at and for the year ended 31 December 2017) prepared in accordance with IFRS.
<b>ACEA</b> .....	The European Automobile Manufacturers Association, which is the major automobile lobbying and standards group in the European Union.
<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 specialty chemicals subsidiary.
<b>Arrangers</b> .....	J.P. Morgan Securities plc and Morgan Stanley & Co. International plc.
<b>Auditors</b> .....	PricewaterhouseCoopers Public Accountants, the independent auditors of the Company.
<b>BP</b> .....	BP plc.
<b>Bylaws</b> .....	The Bylaws of the Company, approved by Council of Ministers Resolution No. 180 dated 1/4/1439 in the Hijri calendar (corresponding to 19 December 2017), which came into effect on 1 January 2018.
<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>Companies Law</b> .....	The Companies Law, issued under Royal Decree No. M/3, dated 28/1/1437 in the Hijri calendar (corresponding to 10 November 2015).
<b>Company</b> .....	Saudi Arabian Oil Company 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>Council of Ministers</b> .....	The cabinet of the Kingdom, which is led by the King and includes the Crown Prince and other cabinet ministers.
<b>D&amp;M</b> .....	DeGolyer & MacNaughton, the Company's independent petroleum consultant.
<b>Dealers</b> .....	J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Citigroup Global Market Limited, Goldman Sachs International, HSBC Bank plc and NCB Capital Company.
<b>DowDuPont</b> .....	DowDuPont Inc.
<b>EMP</b> .....	Environmental Master Plan.
<b>Enforcement Law</b> .....	The law pursuant to which the enforcement of judgments in the Kingdom are governed, which came into force, together with its implementing regulations, on 9 November 2017.
<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>ExxonMobil</b> .....	ExxonMobil Corporation.
<b>FCA</b> .....	The Financial Conduct Authority, a financial regulatory body in the United Kingdom.
<b>Financial Statements</b> .....	The 2017 Financial Statements and the 2018 Financial Statements.
<b>Five Major IOCs</b> .....	Collectively, ExxonMobil, Shell, Chevron, Total and BP.
<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>FSIA</b> .....	U.S. Foreign Sovereign Immunity Act.
<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, it represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time).
<b>GHG</b> . . . . .	Greenhouse gas.
<b>Government</b> . . . . .	The Government of the Kingdom (and “ <b>Governmental</b> ” shall be interpreted accordingly).
<b>GSPR</b> . . . . .	The Law of Gas Supplies and Pricing enacted by Royal Decree No. M/36, dated 25/6/1424 in the Hijri calendar (corresponding to 23 August 2003).
<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 2/4/1439 in the Hijri calendar (corresponding to 20 December 2017). See “ <i>Regulation of the Oil and Gas Industry in the Kingdom—Law on Hydrocarbons</i> ”.
<b>IASB</b> . . . . .	The International Accounting Standards Board.
<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 15/1/1425 in the Hijri calendar (corresponding to 6 March 2004) and its Implementing Regulations issued under Ministerial Resolution No. 1535 dated 11/6/1425 in the Hijri calendar (corresponding to 11 August 2004), as amended from time to time.
<b>Industry Consultant</b> . . . . .	IHS Markit Ltd.
<b>Investor's Currency</b> . . . . .	The currency or currency unit an investor's financial activities are principally denominated in.
<b>IOCs</b> . . . . .	International oil companies.
<b>IRS</b> . . . . .	The U.S. Internal Revenue Service.
<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>LCIA</b> .....	The London Court of International Arbitration.
<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 2007.
<b>MEIM</b> .....	The Ministry of Energy, Industry and Mineral Resources of the Kingdom.
<b>MENA</b> .....	Middle East and North Africa.
<b>MEWA</b> .....	The Ministry of 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 Labour</b> .....	The Ministry of Labour and Social Development of the Kingdom.
<b>Motiva</b> .....	Motiva Enterprises LLC.
<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>OID</b> .....	Original issue discount.
<b>OPEC</b> .....	Organisation of the Petroleum Exporting Countries.
<b>Paris Agreement</b> .....	The United Nations Framework Convention on Climate Change Paris Agreement.
<b>Participants</b> .....	Direct Participants and Indirect Participants.
<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 2005, which is a publicly traded company listed on Tadawul.

<b>Petronas</b> .....	Petroliaam Nasional Bhd.
<b>PIF</b> .....	Public Investment Fund of the Kingdom.
<b>PRefChem</b> .....	Pengerang Petrochemical Company Sdn. Bhd. and Pengerang Refining Company Sdn. Bhd.
<b>R&amp;D</b> .....	Research and development.
<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>Regulated Products</b> .....	Hydrocarbons for which there are regulated prices for domestic sales, including crude oil, natural gas, NGLs (propane, butane and natural gasoline) and some refined products (kerosene, diesel, heavy fuel oil and gasoline).
<b>Reserved Areas</b> .....	The areas reserved for the Company's operations within the Concession Area.
<b>SABIC</b> .....	Saudi Arabian Basic Industries Corporation.
<b>SABIC Financial Statements</b> .....	The audited consolidated financial statements of SABIC as at and for the year ended 31 December 2018 (with comparative data as at and for the year ended 31 December 2017), including the auditors' report thereon and notes thereto.
<b>Sadara</b> .....	Sadara Chemical Company, a joint venture established by the Company and Dow Saudi Arabia B.V. in 2011.
<b>SADCO</b> .....	Saudi Aramco Development Company.
<b>SAMREF</b> .....	Saudi Aramco Mobil Refinery Company Limited, a joint venture established by the Company and Mobil Yanbu' Refining Company Inc. in 1982.
<b>SAR or Saudi Riyal</b> .....	Saudi Arabian Riyal, the lawful currency of the Kingdom.
<b>SASREF</b> .....	Saudi Aramco Shell Refinery Company, a joint venture established by the Company and Shell Saudi Arabia (Refining) Limited in 1982.
<b>SATORP</b> .....	Saudi Aramco Total Refining and Petrochemical Company, a joint venture established by the Company and Total Refining Saudi Arabia SAS in 2008.
<b>Senior Executives</b> .....	The members of the senior management of the Company listed in " <i>Management—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>Shari’ah</b> .....	Islamic religious law.
<b>Shell</b> .....	Royal Dutch Shell plc.
<b>short-term Note</b> .....	A Note that matures one year or less from its date of issuance.
<b>Sinopec</b> .....	China Petroleum & Chemical Corporation.
<b>Socal</b> .....	Standard Oil of California.
<b>SOCPA</b> .....	Saudi Organisation of Certified Public Accountants.
<b>SPE-PRMS</b> .....	Society of Petroleum Engineers—Petroleum Resources Management System.
<b>Stellar</b> .....	Stellar Insurance, Ltd.
<b>STEM</b> .....	Science, technology, engineering and mathematics.
<b>Sukuk</b> .....	Senior unsecured sukuk ( <i>Shari’ah</i> -compliant bonds) issued under the Sukuk Programme.
<b>Sukuk Programme</b> .....	A Saudi domestic sukuk programme established by the Company on 22/6/1438 in the Hijri calendar (corresponding to 21 March 2017) 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>Tadawul</b> .....	The Saudi Stock Exchange, the sole entity authorised in the Kingdom to act as a securities exchange.
<b>Total</b> .....	Total S.A.
<b>VAT</b> .....	Value-added tax.
<b>VRDI</b> .....	A variable rate debt instrument.
<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 2010.

## APPENDIX B—GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

### Certain Abbreviations and Related 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>bscfd</b> .....	Billion standard cubic feet per day.
<b>bTU</b> .....	British Thermal Unit.
<b>kBTU</b> .....	Thousand British Thermal Units.
<b>km</b> .....	Kilometres.
<b>km<sup>2</sup></b> .....	Square kilometres.
<b>m</b> .....	Metres.
<b>m<sup>2</sup></b> .....	Square metres.
<b>mboed</b> .....	Thousand barrels of oil equivalent per day.
<b>mmbbls</b> .....	Million barrels.
<b>mmboc</b> .....	Million barrels of oil equivalent.
<b>mmbocd</b> .....	Million barrels of oil equivalent per day.
<b>mbpd</b> .....	Thousand barrels per day.
<b>mmbpd</b> .....	Million barrels per day.
<b>mmBTU</b> .....	Million British Thermal Units.
<b>mmscfd</b> .....	Million standard cubic feet per day.
<b>mtd</b> .....	Thousand tonnes per day.
<b>scf</b> .....	Standard cubic feet.

### Certain Terminology

<b>Arabian Extra Light (AXL)</b> .....	Crude oil with API gravity of 36° to 40° and sulphur content between 0.5% and 1.3%.
<b>Arabian Heavy (AH)</b> .....	Crude oil with API gravity less than 29° and sulphur content greater than 2.9%.
<b>Arabian Light (AL)</b> .....	Crude oil with API gravity of 32° to 36° and sulphur content between 1.3% and 2.2%.
<b>Arabian Medium (AM)</b> .....	Crude oil with API gravity of 29° to 32° and sulphur content between 2.2% and 2.9%.
<b>Arabian Super Light (ASL)</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 capacity</b> .....	The total combined 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>Maximum Reservoir Contact Wells</b> .....	Multilateral wells that come into contact with more than five kilometres of the reservoir.
<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 capacity</b> .....	The capacity of the Company, including the capacity of its joint ventures and other entities, multiplied by the Company's equity interest in the relevant joint venture or entity.
<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>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 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 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>water cut</b> .....	Ratio of water produced compared to the volume of total liquids produced from an oil or gas well.

## **APPENDIX C—CERTIFICATION LETTER OF D&M**

DeGolyer and MacNaughton  
5001 Spring Valley Road  
Suite 800 East  
Dallas, Texas 75244

November 30, 2018

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, 2017, of the extent of the net 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 that it holds a 100-percent interest. This evaluation was completed on November 30, 2018. The properties evaluated include certain fields and reservoirs referred to and listed herein. Saudi Arabian Oil Company has represented that these properties account for approximately 80 percent of Saudi Arabian Oil Company's net proved reserves as of December 31, 2017. The net proved reserves estimates prepared by us have been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. These reserves definitions are discussed in detail under the Definition of Reserves heading of this report.

Reserves estimated herein are expressed as net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2017, but before December 31, 2077 (license limit). 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 77 reservoirs in 29 fields in this report.

Field	Reservoir	Field	Reservoir
Abqaiq	Arab-D Hanifa	Harmaliyah Karan	Arab-D Khuff-A
Abu Hadriya	Hadriya		Khuff-B/C
Abu Jifan	Arab-D	Khurais	Arab-D
Abu Sa'fah	Arab-C		Hanifa
	Arab-D		Lower Fadhili
Berri	Arab-A	Khursaniyah	Arab-A
	Arab-B		Arab-B
	Arab-C		Arab-C
	Arab-D		Arab-D
	Hanifa		Hanifa
	Hadriya		Khuff-B
	Upper Fadhili		Khuff-C
Fadhili	Fadhili	Manifa	Upper Ratawi
Farhah	Arab-D		Lower Ratawi
Ghawar Ain Dar	Arab-D		Manifa
	Lower Fadhili	Midrikah	Unayzah-A
	Khuff-B	Nujayman	Unayzah-A
Ghawar Fazran	Arab-D	Midyan	Wadi Waqab
	Lower Fadhili	Mazalij	Arab-D
	Khuff-B	Qatif	Arab-C
Ghawar Haradh	Arab-D		Arab-D
	Khuff-A		Fadhili
	Khuff-B	Qirdi	Arab-D
	Khuff-C		Lower Fadhili
	Unayzah	Safaniya	Khafji
Ghawar Hawiyah	Arab-D		Safaniya
	Khuff-B		Ahmadi
	Khuff-C		Ratawi
	Jauf		Wara
Ghawar Shedgum	Arab-D		Zubair
	Khuff-B	Shaybah	Shu'aiba
	Khuff-C	Tinat	Unayzah
	Jauf	Zuluf	Khafji
Ghawar Uthmaniyah	Arab-D		Safaniya
	Khuff-B		Mauddud
	Khuff-C		Ratawi
Ghazal	Unayzah		Shu'aiba

No other reservoirs in these fields were evaluated in this report. The five largest field areas in terms of reserves are: Ghawar (all fields), Khurais Complex (Abu Jifan, Khurais, Mazalij, Qirdi fields), Safaniya, Shaybah, and Zuluf.

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 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, which is the initial 40-year term plus the first 20-year extension, was presumed for proved reserves. During the course of this evaluation, DeGolyer and MacNaughton have 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.

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 during the course of preparation of this report.

This report was prepared in November 2018; therefore, certain events that may have occurred before the preparation of this report but after the “as-of” date of December 31, 2017, 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 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation 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 further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation 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* – Proved Reserves are those quantities of petroleum which, 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-percent probability that the quantities actually recovered will equal or exceed the estimate.

*Unproved Reserves* – Unproved Reserves are based on geoscience and/or engineering data similar to that used in estimates of Proved Reserves, but technical or other uncertainties preclude such reserves being classified as Proved. Unproved Reserves may be further categorized as Probable Reserves and Possible Reserves.

*Probable Reserves* – 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-percent probability that the actual quantities recovered will equal or exceed the 2P estimate.

*Possible Reserves* – Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest 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 Reserves (3P), which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10-percent probability that the actual quantities recovered will equal or exceed the 3P estimate.

*Reserves Status Categories* – Reserves status categories define the development and producing status of wells and reservoirs.

*Developed Reserves* – Developed Reserves are expected quantities 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* – Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.



*Developed Non-Producing Reserves* – Developed Non-Producing Reserves include shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals which 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 which will require additional completion work or future recompletion prior to the start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

*Undeveloped Reserves* – Undeveloped Reserves are quantities expected to be recovered through future investments: (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 the analyses of areas offsetting existing wells with test or production data, reserves were categorized as proved.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure 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 consideration of 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. In such cases, an analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

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.

In certain cases, elements of the reserves estimates incorporated information based on analogy with similar 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.

The reserves estimates presented herein were generally based on consideration of drilling results, analyses of geophysical and geological data, well-test results, pressures, and core data available through December 31, 2017. Production data from wells drilled on the properties evaluated herein were provided through December 31, 2017. Where applicable, estimated gross production through December 31, 2017, was deducted from gross ultimate recovery to arrive at 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 (MMbbl), where 1 barrel equals 42 United States gallons.

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 as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company in this report equal 9,930 billion cubic feet (Bcf). 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 Bcf.

Gas quantities estimated herein are also referred to as solution gas, associated gas, or nonassociated gas based on the origin of the gas. Solution gas is the gas that is liberated from the oil stream during the depletion of an oil reservoir. It exists as a liquid and is part of the oil volume at initial reservoir conditions. Solution gas may be produced to the surface with the oil stream or released into the reservoir if reservoir pressure declines below bubblepoint pressure. Associated gas or gas-cap gas is a gas at initial reservoir conditions, that is associated with and lies directly above the oil accumulation. Nonassociated gas is gas at initial reservoir conditions with no oil present in the reservoir.

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 after 60 years, December 31, 2077.

### 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 has represented that the provided prices were based on the prices received in December 2017 in the evaluated fields and reservoirs.

The crude oil prices for the differing grades of crude, expressed in United States dollars per barrel (U.S.\$/bbl), were as follows:

Crude Type	Price (U.S.\$/bbl)
Arab Heavy	59.10
Arab Medium	60.47
Arab Light	61.84
Arab Extra Light	63.51
Arab Super Light	66.17

The overall average oil price in this report was U.S.\$60.76/bbl. The average condensate price was U.S.\$65.12/bbl. LPG prices were provided separately for propane and butane and were U.S.\$50.86/bbl and U.S.\$49.14/bbl, respectively. Ethane is also considered LPG in this report, but pricing was based on the gas price discussed below. For reference, the average Brent crude price for December 2017, was U.S.\$64.37/bbl. These prices were utilized for the valuation herein and 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 prices, expressed in United States dollars per million British thermal units (U.S.\$/MMBtu), are as follows:

Year	Gas Prices (U.S.\$/MMBtu)			
	Associated Gas	Northern Area Nonassociated Gas	Southern Area Nonassociated Gas	Fadhili Increment Nonassociated Gas
2018 .....	1.25	1.25	1.25	1.25
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.\$1.57/MMBtu.

Ethane is referenced as part of the LPG in this report, but the pricing was based on the same location and source criteria as gas prices. The ethane prices used in this report are shown below, expressed in United States dollars per barrel (U.S.\$/bbl):

Year	Ethane Prices (U.S.\$/bbl)			
	Associated Gas	Northern Area Nonassociated Gas	Southern Area Nonassociated Gas	Fadhili Increment Nonassociated Gas
2018 .....	6.47	6.47	6.47	6.47
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 the 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:

Oil Price	Royalty (%)
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 from 2018 to 2022

Sales gas, ethane, and butane are not subject to royalty, and propane is subject to a fixed royalty of 12.5 percent. 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.

Saudi Arabian Oil Company has represented that its estimates of the proved oil, condensate, LPG, marketable gas, and oil equivalent reserves, as of December 31, 2017, attributable to Saudi Arabian Oil Company's interests in the properties evaluated in this report are summarized as follows, expressed in millions of barrels (MMbbl), billions of cubic feet (Bcf), and millions of barrels of oil equivalent (MMboe):

<b>Estimated by Saudi Arabian Oil Company Proved Reserves Summary</b>				
	<b>Oil (MMbbl)</b>	<b>Condensate and LPG (MMbbl)</b>	<b>Marketable Gas (Bcf)</b>	<b>Oil Equivalent (MMboe)</b>
Total Proved				
Gross .....	167,547	22,559	110,432	208,511
Net .....	167,547	22,559	110,432	208,511

Note: Marketable gas has been converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per boe.

Saudi Arabian Oil Company has advised us 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 oil, condensate, LPG, marketable gas, and oil equivalent reserves attributable to the interest owned by Saudi Arabian Oil Company in the fields evaluated herein, which are located onshore and offshore the Kingdom of Saudi Arabia, as of December 31, 2017, are summarized as follows, expressed in millions of barrels (MMbbl), billions of cubic feet (Bcf), and millions of barrels of oil equivalent (MMboe):

<b>Estimated by DeGolyer and MacNaughton Proved Reserves Summary</b>				
	<b>Oil (MMbbl)</b>	<b>Condensate and LPG (MMbbl)</b>	<b>Marketable Gas (Bcf)</b>	<b>Oil Equivalent (MMboe)</b>
Total Proved				
Gross .....	162,048	28,711	107,508	208,677
Net .....	162,048	28,711	107,508	208,677

#### Notes:

1. Marketable gas has been converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per boe.
2. The fuel gas quantities included as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company in this report equal 9,930 Bcf.
3. The condensate and LPG quantities in this table include 24,306 MMbbl of LPG.

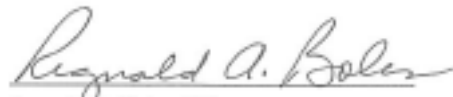
In comparing the detailed proved reserves estimates prepared by DeGolyer and MacNaughton and those prepared by Saudi Arabian Oil Company for the properties evaluated, differences have been found, both positive and negative, in reserves estimates for individual properties that result in an aggregate difference of less than 0.1 percent. For the five largest fields in terms of proved reserves, the aggregate difference is less than 1.0 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, 2017.

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  
Texas Registered Engineering Firm F-716

A handwritten signature in cursive script, reading "Reginald A. Boles".

Reginald A. Boles, P.E.  
Senior Vice President  
DeGolyer and MacNaughton



## CERTIFICATE of QUALIFICATION

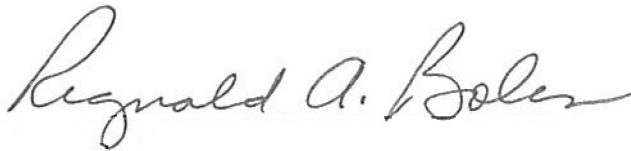
I, Regnald A. Boles, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

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 November 30, 2018, 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 International Society of Petroleum Engineers; and that I have approximately 35 years of experience in oil and gas reservoir studies and reserves evaluations.

SIGNED: November 30, 2018



DeGOLYER and MacNAUGHTON  
Texas Registered Engineering Firm F-716



Regnald A. Boles, P.E.  
Senior Vice President  
DeGolyer and MacNaughton

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### **31 December 2018**

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# **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.

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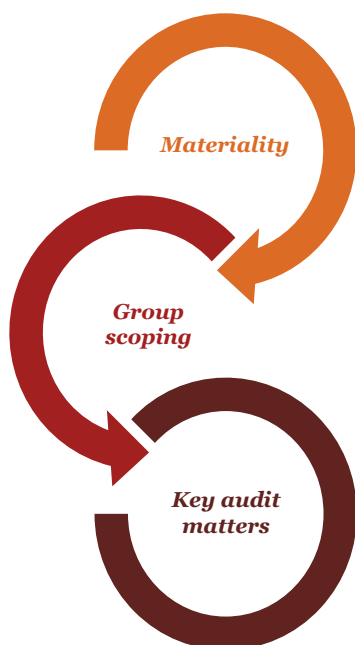
*PricewaterhouseCoopers, License No. 25, Saudi Aramco, P.O. Box 1659, Dhahran 31311, Kingdom of Saudi Arabia  
T: +966 (13) 873-6800, F: +966 (13) 873-8883, [www.pwc.com/middle-east](http://www.pwc.com/middle-east)*



## *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.

**Overall Group materiality** SAR 37.5 billion

**How we determined it** Approximately 5% of income before income taxes

**Rationale for the materiality benchmark applied** 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

#### **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



#### **Key audit matter**

arrangements involved as well as the complexity of lease terms. Judgement and assumptions with respect to 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.

#### **How our audit addressed the key audit matter**

management. We selected a large sample of lease contracts to test the appropriateness of key 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.



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 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".

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

**Saudi Arabian Oil Company**  
**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
		<b>3,871</b>	(5,023)	<b>1,032</b>	(1,339)
<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
		<b>420,389</b>	279,596	<b>112,103</b>	74,559

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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>		<u>1,346,168</u>	<u>1,102,553</u>	<u>358,978</u>	<u>294,014</u>
<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>		<u>11,653</u>	<u>12,556</u>	<u>3,107</u>	<u>3,348</u>
		<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>		<u>1,346,168</u>	<u>1,102,553</u>	<u>358,978</u>	<u>294,014</u>

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	SAR								USD*
	Shareholder's equity								
	Share capital	Stated capital	Additional paid-in capital	Retained earnings		Other reserves (Note 16)	Non-controlling interests	Total	
				Unappropriated	Appropriated <sup>(1)</sup>				
									Total
Balance at January 1, 2017 .....	—	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)
Balance at December 31, 2017 ..	—	60,000	26,981	715,107	6,000	5,670	12,556	826,314	220,350
Net income .....	—	—	—	416,196	—	—	322	416,518	111,071
Other comprehensive income (loss) .....	—	—	—	—	—	4,328	(457)	3,871	1,032
Total comprehensive income (loss) .....	—	—	—	416,196	—	4,328	(135)	420,389	112,103
Conversion to joint stock company (Note 1) .....	60,000	(60,000)	—	—	—	—	—	—	—
Transfer of post-employment benefit obligations remeasurement .....	—	—	—	6,822	—	(6,822)	—	—	—
Dividends .....	—	—	—	(217,500)	—	—	—	(217,500)	(58,000)
Change in control of an affiliate ..	—	—	—	—	—	—	134	134	36
Dividends paid to non-controlling interests .....	—	—	—	—	—	—	(902)	(902)	(240)
Balance at December 31, 2018 ..	60,000	—	26,981	920,625	6,000	3,176	11,653	1,028,435	274,249

\* 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 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 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>
Capital expenditures		(131,766)	(121,955)	(35,138)	(32,521)
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>

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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”), 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

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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**  
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- 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

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(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

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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.

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*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.



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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.

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**(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.

**(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.

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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.

**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.

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**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.

**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.

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**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.

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

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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, 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.



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**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.

**(1) 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.

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.

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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.

**(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.

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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 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.

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*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 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.

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**(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.

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.

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**(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.

**(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



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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.

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.

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**(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.

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

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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 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

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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>	<b><u>7,527</u></b>	<b><u>7,516</u></b>	<b><u>79,039</u></b>	<b><u>94,082</u></b>
<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>	<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>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2018:</b>				
Derivative financial liabilities at fair value through profit or loss .....	—	—	—	—
Commodity swaps .....	—	1,069	—	1,069
Currency forward contracts .....	—	180	—	180
Interest rate swaps .....	—	71	—	71
	<u>—</u>	<u>1,320</u>	<u>—</u>	<u>1,320</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>

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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>	5,283

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.

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.

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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

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.



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**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)
<b>December 31, 2017</b>	<b>468,598</b>	<b>172,065</b>	<b>329,480</b>	<b>78,951</b>	<b>206,248</b>	<b>1,255,342</b>
<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
<b>December 31, 2017</b>	<b>(237,729)</b>	<b>(67,323)</b>	<b>(147,357)</b>	<b>(51,799)</b>	<b>—</b>	<b>(504,208)</b>
<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**  
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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)
<b>December 31, 2017</b>	<b>16,008</b>	<b>4,931</b>	<b>1,318</b>	<b>4,101</b>	<b>1,589</b>	<b>27,947</b>
<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
<b>December 31, 2017</b>	<b>—</b>	<b>(660)</b>	<b>(557)</b>	<b>(2,351)</b>	<b>(33)</b>	<b>(3,601)</b>
<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).

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**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> . . . . .	65%	Saudi Arabia	Petrochemical	11,660	11,729
ARLANXEO Holding B.V. ("ARLANXEO") <sup>(3)</sup> . . . . .	Nil / 50%	Netherlands	Synthetic rubber	—	5,419
Rabigh Refining and Petrochemical Company ("Petro Rabigh") <sup>(2)(4)</sup> . . .	37.5%	Saudi Arabia	Refining/ petrochemical	2,763	2,525
Fujian Refining and Petrochemical Company Limited ("FREP") . . . . .	25%	People's Republic of China	Refining/ petrochemical	2,419	2,477
National Shipping Company of Saudi Arabia ("Bahri") <sup>(4)</sup> . . . . .	20%	Saudi Arabia	Global logistics services	2,129	2,120
Jubail and Yanbu Electricity and Water Utility Company ("Marafiq") . . . . .	24.8%	Saudi Arabia	Utilities	1,831	1,687
International Maritime Industries ("IMI") <sup>(1)</sup> . . . . .	50.1%	Saudi Arabia	Maritime	425	146
Sinopec SenMei (Fujian) Petroleum Company Limited ("SSPC") . . . . .	22.5%	People's Republic of China	Marketing/ petrochemical	401	471
Juniper Ventures of Texas LLP ("Juniper") <sup>(1)</sup> . . . . .	60% / Nil	United States	Marketing	331	—
First Coast Energy LLP . . . . .	50%	United States	Marketing Lubricants	263	298
S-Oil TOTAL Lubricants Limited . . .	50%	South Korea	production/sale	147	156
Saudi Arabian Industrial Investment Company ("IIC") . . . . .	25%	Saudi Arabia	Investment	116	145
GCC Electrical Equipment Testing Lab ("GCC Lab") . . . . .	20%	Saudi Arabia	Inspection	63	67
Star Enterprises LLC ("Star") . . . . .	50%	United States	Pension Administration	27	33
Pan Arabian Program Management Company ("PAPMCS") . . . . .	50% / Nil	Saudi Arabia	Engineering services	4	—
				<u>22,579</u>	<u>27,273</u>

- (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.

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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**  
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**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 .....	—	—	—

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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, 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>



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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 .....	6,268	5,401	2,763	2,525
Bahri .....	2,630	2,479	2,129	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.

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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>

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**(d) Deferred income taxes**

	<u>2018</u>	<u>2017</u>
<b>Deferred income tax assets:</b>		
Kingdom .....	<b>8,946</b>	13,542
U.S. Federal and State .....	<b>14</b>	27
Other foreign .....	<b>906</b>	37
	<u><b>9,866</b></u>	<u>13,606</u>
<b>Deferred income tax liabilities:</b>		
Kingdom .....	<b>18,637</b>	31
U.S. Federal and State .....	<b>2,234</b>	2,430
Other foreign .....	<b>3,006</b>	3,848
	<u><b>23,877</b></u>	<u>6,309</u>
<b>Net deferred income tax (liabilities) assets .....</b>	<u><b>(14,011)</b></u>	<u>7,297</u>

The gross movement of the net deferred income tax position is as follows:

	<u>2018</u>	<u>2017</u>
<b>January 1 .....</b>	<b>7,297</b>	58,339
Current period charge to income .....	<b>(15,614)</b>	(33,108)
Adjustments to equity—Other reserves .....	<b>(5,863)</b>	(17,167)
Other adjustments .....	<b>169</b>	(767)
<b>December 31 .....</b>	<u><b>(14,011)</b></u>	<u>7,297</u>
	<u><b>2018</b></u>	<u><b>2017</b></u>
Deferred income tax to be (settled)/recovered after more than 12 months ...	<u><b>(14,011)</b></u>	1,259
Deferred income tax to be recovered within 12 months .....	<u><b>—</b></u>	6,038
<b>Net deferred income tax (liabilities) assets .....</b>	<u><b>(14,011)</b></u>	<u>7,297</u>

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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,

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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 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 . . . . .	<b>5,023</b>	4,735
Home ownership construction . . . . .	<b>4,088</b>	2,886
Loans to joint venture and associate (Note 30(b)) . . . . .	<b>2,777</b>	4,652
Finance lease receivable from associate (Note 30(b)) . . . . .	<b>452</b>	465
Derivative assets . . . . .	<b>191</b>	119
Other . . . . .	<b>596</b>	1,262
	<u><b>13,127</b></u>	<u>14,119</u>
<b>Current:</b>		
Employee and other receivables . . . . .	<b>3,557</b>	1,196
Prepaid expenses . . . . .	<b>2,984</b>	1,015
Derivative assets . . . . .	<b>2,610</b>	346
Tax receivables . . . . .	<b>2,347</b>	358
Home loans . . . . .	<b>750</b>	718
Investments in securities (Note 10) . . . . .	<b>558</b>	270
Rig mobilization fees . . . . .	<b>398</b>	1,261
Interest receivable . . . . .	<b>171</b>	273
Assets held for sale . . . . .	<b>81</b>	235
Receivables from joint venture and associates (Note 30(b)) . . . . .	<b>71</b>	33
Other . . . . .	<b>248</b>	176
	<u><b>13,775</b></u>	<u>5,881</u>

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**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 .....	<b>8,470</b>	7,907
Less:		
Discount .....	<b>(1,868)</b>	(1,494)
Allowance for doubtful home loans .....	<b>(480)</b>	(593)
Subsidies .....	<b>(349)</b>	(367)
Net amounts receivable .....	<b>5,773</b>	5,453
<b>Current</b> .....	<b>(750)</b>	(718)
<b>Non-current</b> .....	<b>5,023</b>	4,735

**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.



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The components of Investments in securities are as follows:

	<b>2018</b>	
	<b>Percentage ownership</b>	<b>Carrying amount as of December 31</b>
<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>2017</b>	
	<b>Percentage ownership</b>	<b>Carrying amount as of December 31</b>
<b>Available-for-sale financial assets:</b>		
<b>Equity investments—listed securities:</b>		
Saudi Electricity Company (“SEC”) . . . . .	<b>6.9%</b>	<b>6,071</b>
Showa Shell Sekiyu K.K. (“Showa Shell”) . . . . .	<b>14.9%</b>	<b>2,869</b>
Mutual and hedge funds . . . . .		<b>4,208</b>
<b>Equity investments—unlisted securities:</b>		
Arab Petroleum Pipeline Company (“Sumed”) . . . . .	<b>15.0%</b>	<b>907</b>
Industrialization & Energy Services Company (“TAQA”) . . . . .	<b>4.6%</b>	<b>247</b>
Daehan Oil Pipeline Corporation (“Daehan”) . . . . .	<b>8.9%</b>	<b>161</b>
<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 . . . . .		<b>3,334</b>
U.S. Dollar debt securities with variable interest rates and maturity dates between March 2018 and October 2062 . . . . .		<b>497</b>
		<b>18,294</b>
<b>Financial assets at fair value through profit or loss—unlisted securities . . . . .</b>		<b>848</b>
		<b>19,142</b>

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

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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

	<u>2018</u>	<u>2017</u>
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
	<u><b>43,580</b></u>	<u>34,013</u>

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

	<u>2018</u>	<u>2017</u>
<b>Balance, January 1</b> .....	<b>1,911</b>	1,733
Additions to the allowance .....	<b>177</b>	178
<b>Balance, December 31</b> .....	<u><b>2,088</b></u>	<u>1,911</u>

## 12. Trade receivables

Trade receivables from export and local sales are denominated primarily in USD and SAR, respectively.

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
	<u><b>94,657</b></u>	<u>87,748</u>
Less: Allowances arising from local sales at Kingdom regulated prices .....	<u><b>(839)</b></u>	<u>(856)</u>
	<u><b>93,818</b></u>	<u>86,892</u>

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.

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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><u>839</u></b>	<u>856</u>

**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><u>48,140</u></b>	<u>38,991</u>

**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><u>194</u></b>	<u>6,184</u>

**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><u>183,152</u></b>	<u>81,242</u>

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**16. Other reserves**

	Share of other comprehensive income (loss) of joint ventures and associates							
	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	Post-employment benefit obligations and other	Foreign currency translation (losses) gains	Total
<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

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**17. Borrowings**

	<u>2018</u>	<u>2017</u>
<b>Non-current:</b>		
Borrowings .....	<b>25,934</b>	29,181
Debentures .....	<b>17,014</b>	20,735
Sukuk (Shari'a compliant) .....	<b>12,821</b>	13,001
Finance lease liabilities .....	<b>12,329</b>	4,641
Other <sup>(1)</sup> .....	<b>3,231</b>	1,134
	<b><u>71,329</u></b>	<u>68,692</u>
<b>Current:</b>		
Short-term bank financing .....	<b>23,174</b>	4,857
Borrowings .....	<b>5,906</b>	3,579
Sukuk (Shari'a compliant) .....	<b>180</b>	157
Finance lease liabilities .....	<b>729</b>	313
	<b><u>29,989</u></b>	<u>8,906</u>
<b>Finance costs:</b>		
Conventional borrowing .....	<b>1,576</b>	657
Finance lease liabilities .....	<b>480</b>	500
Shari'a compliant financial instruments .....	<b>593</b>	625
Unwinding of discount (Note 19) .....	<b>310</b>	308
	<b><u>2,959</u></b>	<u>2,090</u>

(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 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:

	<u>Note</u>	<u>Total facility</u>		<u>Total undrawn</u>	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
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><u>175,374</u></b>	<u>164,324</u>	<b><u>95,618</u></b>	<u>106,901</u>

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**(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.
- (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.



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**(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 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.

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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

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
	<b>77,040</b>	81,875

**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

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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 .....	<u><b>(9,909)</b></u>	<u>(3,372)</u>
	<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>

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 .....	3,774	(11)	(1,923)	1,840
<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 .....	<b>922</b>	—	—	<b>922</b>
<b>December 31, 2018</b> .....	<u><b>65,086</b></u>	<u><b>23,174</b></u>	<u><b>13,058</b></u>	<u><b>101,318</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

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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

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

	<u>Pension benefits</u>		<u>Other benefits</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Net benefit obligation by funding:</b>				
Present value of funded obligations .....	<b>52,023</b>	50,454	<b>78,548</b>	92,175
Fair value of plan assets .....	<b>(58,376)</b>	(53,726)	<b>(60,758)</b>	(61,661)
<b>Benefit (surplus)/deficit</b> .....	<b>(6,353)</b>	(3,272)	<b>17,790</b>	30,514
Present value of unfunded obligations .....	<b>5,273</b>	4,383	<b>6,499</b>	6,566
<b>Net benefit (asset)/liability</b> .....	<b>(1,080)</b>	1,111	<b>24,289</b>	37,080
<b>Change in benefit obligations:</b>				
Benefit obligations, January 1 .....	<b>54,837</b>	49,838	<b>98,741</b>	93,803
Current service cost .....	<b>3,270</b>	2,865	<b>2,303</b>	2,123
Interest cost .....	<b>2,010</b>	2,039	<b>3,698</b>	4,005
Past service cost .....	<b>(4)</b>	176	<b>(1,016)</b>	187
Remeasurement .....	<b>(3,280)</b>	2,664	<b>(17,431)</b>	(158)
Plan participants' contribution .....	<b>113</b>	116	<b>—</b>	—
Benefits paid .....	<b>(3,330)</b>	(3,450)	<b>(1,725)</b>	(1,639)
Settlements .....	<b>—</b>	(848)	<b>—</b>	—
Acquisitions (Note 31) .....	<b>3,668</b>	1,395	<b>109</b>	278
Foreign currency translation and other .....	<b>12</b>	42	<b>368</b>	142
<b>Benefit obligations, December 31</b> .....	<b>57,296</b>	54,837	<b>85,047</b>	98,741
<b>Change in plan assets:</b>				
Fair value of plan assets January 1 .....	<b>(53,726)</b>	(44,989)	<b>(61,661)</b>	(51,867)
Interest income .....	<b>(1,905)</b>	(1,781)	<b>(2,378)</b>	(2,201)
Remeasurement .....	<b>195</b>	(6,173)	<b>6,960</b>	(3,930)
Employer contributions .....	<b>(3,330)</b>	(4,247)	<b>(5,404)</b>	(5,302)
Benefits paid .....	<b>3,330</b>	3,450	<b>1,725</b>	1,639
Settlements .....	<b>—</b>	848	<b>—</b>	—
Acquisitions (Note 31) .....	<b>(3,023)</b>	(690)	<b>—</b>	—
Foreign currency translation and other .....	<b>83</b>	(144)	<b>—</b>	—
<b>Fair value of plan assets, December 31</b> .....	<b>(58,376)</b>	(53,726)	<b>(60,758)</b>	(61,661)
<b>Net benefit (asset)/liability at December 31</b> .....	<b>(1,080)</b>	1,111	<b>24,289</b>	37,080

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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.

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:

	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<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>3,360</b>	<b>3,299</b>	<b>2,967</b>	<b>4,114</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>(3,085)</b>	<b>(3,509)</b>	<b>(10,471)</b>	<b>(4,088)</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:

	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
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.

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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><u>119,134</u></b>	<u>115,387</u>

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



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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 .....	(48)	(285)	(94)	(427)
<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 .....	<b>(51)</b>	<b>(114)</b>	<b>(91)</b>	<b>(256)</b>
<b>December 31, 2018</b> .....	<b>13,707</b>	<b>849</b>	<b>1,050</b>	<b>15,606</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.

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**20. Trade and other payables**

	2018	2017
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**

	2018	2017
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			
	Upstream	Downstream	Corporate	Total
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>

	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>

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Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

	<u>2018</u>	<u>2017</u>
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
	<u><b>73,674</b></u>	<u>50,149</u>

**22. Finance and other income**

	<u>2018</u>	<u>2017</u>
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
	<u><b>3,865</b></u>	<u>1,569</u>

**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.

**(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

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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:

	<u>2018</u>	<u>2017</u>
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
	<u><b>35,565</b></u>	<u>21,586</u>

**(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.

**(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.

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- (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) 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

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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
	<u><b>54,371</b></u>	<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
	<u><b>188,937</b></u>	<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.

**28. Employee benefit expense**

	<u>2018</u>	<u>2017</u>
Salaries and wages .....	<b>29,849</b>	27,681
Social security costs .....	<b>1,804</b>	1,713
Post-retirement benefits (Note 18):		
Defined benefit plans .....	<b>6,327</b>	7,413
Defined contribution plans .....	<b>926</b>	861
	<u><b>38,906</b></u>	<u>37,668</u>



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**29. Payments to the Government**

	<u>2018</u>	<u>2017</u>
Income taxes (Note 8(c))	<b>180,119</b>	172,753
Royalties (Note 23(a))	<b>213,513</b>	141,233
Dividends (Note 23(a))	<b>217,500</b>	187,849
	<b><u>611,132</u></b>	<u>501,835</u>

**30. Related party transactions**

**(a) Transactions**

	<u>2018</u>	<u>2017</u>
<b>Joint ventures:</b>		
Revenue from sales	<b>4,159</b>	10,620
Other revenue (Note 21)	<b>30</b>	79
Interest income	<b>49</b>	90
Service expenses	<b>26</b>	79
<b>Associates:</b>		
Revenue from sales	<b>39,356</b>	28,789
Other revenue (Note 21)	<b>281</b>	356
Interest income	<b>113</b>	98
Purchases	<b>39,480</b>	27,844
Service expenses	<b>195</b>	244
<b>Government and semi-Government agencies:</b>		
Sales	<b>50,111</b>	45,755
Other income related to sales	<b>152,641</b>	150,176
Other revenue (Note 21)	<b>731</b>	1,076
Purchases	<b>3,394</b>	3,266
Service expenses	<b>323</b>	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.

**(b) Balances**

	<u>2018</u>	<u>2017</u>
<b>Joint ventures:</b>		
Other assets and receivables (Note 9)	<b>4</b>	1,930
Trade receivables	<b>176</b>	—
Interest receivable	<b>—</b>	203
<b>Associates:</b>		
Other assets and receivables (Note 9)	<b>3,296</b>	3,220
Trade receivables	<b>10,388</b>	9,355
Trade and other payables (Note 20)	<b>4,492</b>	4,166
<b>Government and semi-Government agencies:</b>		
Trade receivables	<b>8,764</b>	6,679
Due from the Government (Note 13)	<b>48,140</b>	38,991
Trade and other payables (Note 20)	<b>2,269</b>	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.

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**(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:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits .....	57	50
Post-employment benefits .....	27	66
Other long-term benefits .....	10	8
Termination benefits .....	17	—
	<u>111</u>	<u>124</u>

**(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. 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.

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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 . . . . .	(28,136)
Total identifiable net assets at fair value . . . . .	7,200
Saudi Aramco's 50% share . . . . .	3,600
Other adjustments . . . . .	(66)
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.

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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 . . . . .	(1,074)
Total identifiable net assets at fair value . . . . .	11,597
Non-controlling interest . . . . .	(53)
Acquisition date fair value of previously held interest . . . . .	(5,813)
Fair value of additional interest acquired on December 31, 2018 . . . . .	5,731
Goodwill . . . . .	210
Other adjustments . . . . .	165
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.

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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.

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**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



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	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>
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	—	—	—
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	—	—

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	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>
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
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			

**Saudi Arabian Oil Company**  
**Notes to the Consolidated Financial Statements**  
*(All amounts in millions unless otherwise stated)*

		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>
Principal Business Activity					
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	—
61.6% ownership of S-Oil Corporation .....	Refining	South Korea	2,542	16,681	83
61.6% ownership of S-International Ltd. ....		The Independent State of Samoa	—	—	—
	Purchasing and sale of petroleum goods				

(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 unless otherwise stated)*

**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	<b>3</b>	<b>929</b>	—
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	<b>577</b>	<b>1,548</b>	<b>2</b>
Pengerang Petrochemical Company Sdn. Bhd. . . . .	Petrochemical	50%	Malaysia	<b>110</b>	<b>509</b>	<b>1</b>
Power Cogeneration Plant Company, LLC . . . . .	Power generation	50%	Saudi Arabia	<b>74</b>	<b>932</b>	<b>58</b>
Saudi Aramco Mobil Refinery Company Ltd. . . . .	Refining	50%	Saudi Arabia	<b>1,123</b>	<b>722</b>	<b>23</b>
Saudi Aramco Shell Refinery Company . . . . .	Refining	50%	Saudi Arabia	<b>268</b>	<b>308</b>	<b>46</b>
Saudi Aramco Total Refining and Petrochemical Company <sup>(2)</sup> . . .	Refining and petrochemical	62.50%	Saudi Arabia	<b>1,715</b>	<b>13,125</b>	<b>62</b>
Yanbu Aramco Sinopec Refining Company Limited <sup>(2)</sup> . . . . .	Refining	62.50%	Saudi Arabia	<b>317</b>	<b>7,989</b>	—

(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.

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.

*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.

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.

**Key audit matter**

*Refer to Note 2(a)(iii), Note 13 and Note 23 to the consolidated financial statements for further information.*

***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**

We recomputed management's calculations of the supplemental income per the detailed price equalisation rules set out in Ministerial Resolution 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

## **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.*

### ***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

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 parameters. We also assessed the appropriateness of the accounting policies disclosed in the consolidated financial statements on this matter.

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.



**KHALID A. AL-FALIH**  
Chairman of the Board



**AMIN H. NASSER**  
President & Chief Executive Officer



**ABDALLAH I. AL-SAADAN**  
Senior Vice President, Finance,  
Strategy & Development

**Saudi Arabian Oil Company**  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		Year ended December 31		Year ended December 31	
	Note	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

\* 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 BALANCE SHEET**

		At December 31		At December 31	
	Note	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
		<u>849,350</u>	<u>788,899</u>	<u>226,493</u>	<u>210,373</u>
<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
		<u>253,203</u>	<u>151,804</u>	<u>67,521</u>	<u>40,481</u>
<b>Total assets</b>		<u>1,102,553</u>	<u>940,703</u>	<u>294,014</u>	<u>250,854</u>
<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
		<u>813,758</u>	<u>724,590</u>	<u>217,002</u>	<u>193,224</u>
<b>Non-controlling interests</b>		<u>12,556</u>	<u>10,756</u>	<u>3,348</u>	<u>2,868</u>
		<u>826,314</u>	<u>735,346</u>	<u>220,350</u>	<u>196,092</u>
<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
		<u>127,189</u>	<u>105,829</u>	<u>33,917</u>	<u>28,221</u>
<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
		<u>149,050</u>	<u>99,528</u>	<u>39,747</u>	<u>26,541</u>
		<u>276,239</u>	<u>205,357</u>	<u>73,664</u>	<u>54,762</u>
<b>Total equity and liabilities</b>		<u>1,102,553</u>	<u>940,703</u>	<u>294,014</u>	<u>250,854</u>

\* 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 STATEMENT OF CHANGES IN EQUITY**

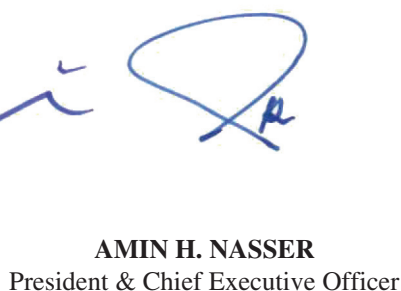
	Equity attributable to the Government				Other reserves (Note 16) SAR	Non- controlling interests SAR	Total SAR	Total USD*
	Stated capital SAR	Additional paid-in capital SAR	Retained earnings <sup>(1)</sup>					
			Unappropriated SAR	Appropriated SAR				
<b>Balance at January 1, 2016</b> .....	60,000	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> .....	60,000	26,981	631,481	6,000	128	10,756	735,346	196,092
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 .....	—	—	<b>(11,723)</b>	—	<b>11,723</b>	—	—	—
Distributions .....	—	—	<b>(187,849)</b>	—	—	—	<b>(187,849)</b>	<b>(50,093)</b>
Acquisition of subsidiary . . .	—	—	—	—	—	<b>94</b>	<b>94</b>	<b>25</b>
Change in control of affiliate .....	—	—	—	—	—	<b>218</b>	<b>218</b>	<b>58</b>
Dividends paid to non-controlling interests .....	—	—	—	—	—	<b>(1,091)</b>	<b>(1,091)</b>	<b>(291)</b>
<b>Balance at December 31, 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>

\* 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 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>	<b>304,976</b>	<b>155,050</b>	<b>81,327</b>
<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>	<b>109,411</b>	<b>88,962</b>	<b>29,177</b>
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>	<b>(116,900)</b>	<b>(31,634)</b>	<b>(31,174)</b>
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>	<b>2,021</b>	<b>(48,483)</b>	<b>539</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>33,167</b>	<b>(5,468)</b>	<b>8,845</b>	<b>(1,458)</b>
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>	<b>48,075</b>	<b>21,665</b>	<b>12,820</b>

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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.

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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 presented as a separate line within operating cost in the income statement and are deductible costs for Government income tax calculations.

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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 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



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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.

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

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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.

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

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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 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

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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.

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets:

**Crude oil facilities:**

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

**Refinery facilities** 6 to 30

**Gas & NGL facilities** 6 to 20

**General service plant:**

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.

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**(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 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.

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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.

**(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.



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**(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.

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

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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

**(I) 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.

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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 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.

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**(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 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.

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**(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 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

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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.

**(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.



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**(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.

**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.

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- 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

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.

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**(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 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

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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.

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>8,959</b>	<b>5,368</b>	<b>5,283</b>	<b>19,610</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>8,490</b>	<b>5,044</b>	<b>4,301</b>	<b>17,835</b>

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<u>Liabilities</u>	<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).

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>5,283</b>	4,301

#### 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.

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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 . . . . .	574,131	260,642	1,210	—	835,983
Supplemental income . . . . .	29,121	121,055	—	—	150,176
Inter-segment revenue . . . . .	213,382	29,415	—	(242,797)	—
Share of results from joint ventures and associates . . . . .	(2)	(910)	(44)	—	(956)
Finance and other income . . . . .	51	727	1,121	(330)	1,569
Depreciation and amortization . . . . .	(25,788)	(9,340)	(1,766)	—	(36,894)
Impairments . . . . .	—	(145)	(136)	—	(281)
Finance costs . . . . .	(16)	(1,734)	(670)	330	(2,090)
Income (loss) before taxes . . . . .	574,053	19,128	(11,743)	—	581,438
Income taxes (expense) credit . . . . .	(295,316)	(7,777)	6,274	—	(296,819)
Net income (loss) . . . . .	278,737	11,351	(5,469)	—	284,619
Capital expenditures—cash basis . . . .	82,508	35,569	3,878	—	121,955
	<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 . . . . .	696,477	139,506	835,983
Property, plant and equipment, intangible assets, investment in joint ventures and associates . . . . .	722,936	79,817	802,753
<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.



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**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, 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>
<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, December 31, 2016</b>	<b>217,295</b>	<b>71,921</b>	<b>169,624</b>	<b>21,205</b>	<b>155,321</b>	<b>635,366</b>

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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.

**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	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>
<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	11,258	2,330	1,233	3,086	581	18,488
<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	—	(513)	(263)	(2,112)	—	(2,888)
<b>Intangible assets—net, December 31, 2016</b>	<b>11,258</b>	<b>1,817</b>	<b>970</b>	<b>974</b>	<b>581</b>	<b>15,600</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).

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**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.

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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

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**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 . . . . .	<b>46,121</b>	<b>8,434</b>	<b>27,401</b>	<b>13,676</b>	<b>56,105</b>	<b>151,737</b>
Depreciation and amortization . . . . .	<b>1,275</b>	<b>3,146</b>	<b>1,433</b>	<b>1,271</b>	<b>3,829</b>	<b>10,954</b>
Conventional Interest income . . . . .	<b>—</b>	<b>4</b>	<b>116</b>	<b>—</b>	<b>143</b>	<b>263</b>
Interest expense . . . . .	<b>188</b>	<b>2,036</b>	<b>476</b>	<b>113</b>	<b>1,283</b>	<b>4,096</b>
Income tax expense . . . . .	<b>146</b>	<b>8</b>	<b>945</b>	<b>150</b>	<b>346</b>	<b>1,595</b>
Net income (loss) . . . . .	<b>1,804</b>	<b>(4,841)</b>	<b>2,854</b>	<b>(8)</b>	<b>2,194</b>	<b>2,003</b>
Other comprehensive income (loss) . . . . .	<b>109</b>	<b>(4)</b>	<b>—</b>	<b>536</b>	<b>(1)</b>	<b>640</b>
Total comprehensive income (loss) . . . . .	<b>1,913</b>	<b>(4,845)</b>	<b>2,854</b>	<b>528</b>	<b>2,193</b>	<b>2,643</b>

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 . . . . .	<b>3,555</b>	<b>46,459</b>	<b>—</b>
FREP . . . . .	<b>6,311</b>	<b>11,299</b>	<b>—</b>
Arlanxeo . . . . .	<b>1,703</b>	<b>2,130</b>	<b>—</b>
Marafiq . . . . .	<b>2,055</b>	<b>9,836</b>	<b>41</b>
IIC . . . . .	<b>596</b>	<b>38</b>	<b>4</b>
IMI . . . . .	<b>375</b>	<b>11</b>	<b>—</b>
GCC Lab . . . . .	<b>146</b>	<b>—</b>	<b>4</b>
First Coast Energy LLP . . . . .	<b>26</b>	<b>645</b>	<b>—</b>

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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 . . . . .	14,209	3,135	5,555	5,059	13,079	41,037
Total current assets . . . . .	15,825	3,555	9,973	5,408	20,365	55,126
<b>Non-current assets</b> . . . . .	54,454	70,841	12,349	7,530	94,095	239,269
<b>Current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	2,100	105	—	1,028	5,115	8,348
Other . . . . .	10,974	5,758	3,473	1,939	13,353	35,497
Total current liabilities . . . . .	13,074	5,863	3,473	2,967	18,468	43,845
<b>Non-current liabilities:</b>						
Financial liabilities (excluding trade and other payables) . . . . .	11,569	53,036	10,815	188	68,719	144,327
Other . . . . .	5,483	341	130	1,129	1,029	8,112
Total non-current liabilities . . . . .	17,052	53,377	10,945	1,317	69,748	152,439
<b>Net assets</b> . . . . .	40,153	15,156	7,904	8,654	26,244	98,111
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> . . . . .	19,526	9,866	1,976	5,160	6,972	43,500

**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 . . . . .	(165)	154	—	(161)	—	(172)
Total comprehensive income (loss) . . . . .	3,053	(5,351)	2,723	(356)	2,850	2,919

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 . . . . .	5,401	3,863	2,525	2,348
Bahri . . . . .	2,479	3,416	2,120	2,265



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**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)
	<u><b>296,819</b></u>	<u>255,255</u>

**(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
	<u><b>296,819</b></u>	<u>255,255</u>

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).

**(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> .....	<u><b>57,679</b></u>	<u>28,541</u>

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

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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
	<u><b>6,309</b></u>	<u><b>6,169</b></u>
<b>Net deferred income tax assets .....</b>	<u><b>7,297</b></u>	<u>58,339</u>

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>	<u><b>7,297</b></u>	<u>58,339</u>
	<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>	<u><b>7,297</b></u>	<u>58,339</u>

The movement in deferred income tax assets and liabilities for the year is as follows:

Deferred income tax assets (liabilities)	Fair value of available-for-sale financial assets	Property plant and equipment and intangibles	Post- employment benefit obligations	Provisions and other	Total
<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>

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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 .....	(1,199)	67	168	288	(676)
Other reserves credits .....	39	—	—	—	39
Other adjustments .....	777	—	—	—	777
<b>December 31, 2017</b> .....	<b>1,079</b>	<b>6,726</b>	<b>885</b>	<b>(2,381)</b>	<b>6,309</b>

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.

**(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.

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**9. Other assets and receivables**

	<u>2017</u>	<u>2016</u>
<b>Non-current:</b>		
Home loans	4,735	4,425
Loans to joint venture and associate (Note 29(b))	4,652	4,462
Home ownership construction	2,886	1,459
Finance lease receivable from associate (Note 29(b))	465	476
Other	1,381	1,639
	<u>14,119</u>	<u>12,461</u>
<b>Current:</b>		
Employee and other receivables	1,545	814
Rig mobilization fees	1,261	1,553
Prepaid expenses	1,015	716
Home loans	718	821
Tax receivables	358	263
Interest receivable	273	221
Investment in securities (Note 10)	270	206
Assets held for sale	235	—
Receivables from joint venture and associate (Note 29(b))	33	94
Other	173	191
	<u>5,881</u>	<u>4,879</u>

**(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:

	<u>2017</u>	<u>2016</u>
Gross amounts receivable	7,907	7,549
Less:		
Discount	(1,494)	(1,403)
Allowance for doubtful home loans	(593)	(484)
Subsidies	(367)	(416)
Net amounts receivable	5,453	5,246
<b>Current</b>	<u>(718)</u>	<u>(821)</u>
<b>Non-current</b>	<u>4,735</u>	<u>4,425</u>

**10. Investment in securities**

	<u>2017</u>	<u>2016</u>
<b>January 1</b>	17,670	14,351
Net additions	506	1,039
Net unrealized fair value gain	949	2,344
Impairment	—	(60)
Net unrealized foreign currency gain (loss)	17	(4)
<b>December 31</b>	19,142	17,670
<b>Current (Note 9)</b>	<u>(270)</u>	<u>(206)</u>
<b>Non-current</b>	<u>18,872</u>	<u>17,464</u>

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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:

	Percent ownership		Carrying amount as of December 31, 2017	Carrying amount as of December 31, 2016
	2017	2016		
<b>Available-for-sale financial assets:</b>				
<b>Equity investments—listed securities:</b>				
Saudi Electricity Company (“SEC”) . . . . .	6.9%	6.9%	6,071	6,514
Showa Shell Sekiyu K.K. (“Showa Shell”) . . . . .	14.9%	14.9%	2,869	1,965
Mutual and hedge funds . . . . .			4,208	3,353
<b>Equity investments—unlisted securities:</b>				
Arab Petroleum Pipeline Company (“Sumed”) . . . .	15.0%	15.0%	907	911
Industrialization & Energy Services Company (“TAQA”) . . . . .	4.6%	4.6%	247	218
Daehan Oil Pipeline Corporation (“Daehan”) . . . . .	8.9%	8.9%	161	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) . . . . .			3,334	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) . . . . .			497	427
			18,294	17,029
<b>Financial assets at fair value through profit or loss—unlisted securities . . . . .</b>			848	641
			19,142	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).

## 11. Inventories

	2017	2016
Crude oil, refined products and chemicals . . . . .	28,130	15,071
Materials and supplies—net . . . . .	5,735	5,850
Natural gas liquids and other . . . . .	148	135
	34,013	21,056

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The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

	<u>2017</u>	<u>2016</u>
<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><u>1,911</u></b>	<u>1,733</u>

## 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:

	<u>2017</u>	<u>2016</u>
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><u>86,892</u></b>	<u>65,258</u>

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:

	<u>2017</u>	<u>2016</u>
<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><u>856</u></b>	<u>818</u>

## 13. Due from the Government

	<u>2017</u>	<u>2016</u>
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><u>38,991</u></b>	<u>—</u>

## 14. Short-term investments

	<u>2017</u>	<u>2016</u>
South Korean Won time deposits .....	<b>5,999</b>	10,654
USD time deposits .....	<b>105</b>	1,136
SAR time deposits .....	<b>80</b>	592
SAR murabaha time deposits (Shari'a compliant) .....	—	154
	<b><u>6,184</u></b>	<u>12,536</u>



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**15. Cash and cash equivalents**

	<u>2017</u>	<u>2016</u>
Cash at bank and in hand . . . . .	<b>21,058</b>	11,242
USD time deposits . . . . .	<b>53,771</b>	32,467
USD murabaha time deposits (Shari'a compliant) . . . . .	<b>3,677</b>	788
South Korean Won time deposits . . . . .	<b>1,328</b>	2,242
SAR time deposits . . . . .	<b>747</b>	709
SAR repurchase agreements . . . . .	<b>661</b>	623
Time deposits—other currencies . . . . .	<b>—</b>	4
	<u><b>81,242</b></u>	<u>48,075</u>

**16. Other reserves**

					Share of other comprehensive income (loss) of joint ventures and associates		
	Currency translation adjustment	Fair value adjustments of available-for- sale financial assets	Post- employment benefit obligations	Cash flow hedges and other	Post- employment benefit obligations and other	Foreign currency translation (losses) gains	Total
<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 . . .	<b>3,333</b>	<b>924</b>	—	(169)	(205)	<b>661</b>	<b>4,544</b>
Remeasurement gain . . . .	—	—	<b>7,597</b>	—	<b>3</b>	—	<b>7,600</b>
Transfer to retained Earnings . . . . .	—	—	<b>11,726</b>	—	(3)	—	<b>11,723</b>
Tax effect . . . . .	—	<b>2,144</b>	(19,311)	—	—	—	(17,167)
Less: amounts related to non-controlling interests . . . . .	(1,266)	—	(12)	120	—	—	(1,158)
<b>December 31, 2017 . . . .</b>	<u><b>798</b></u>	<u><b>4,492</b></u>	<u><b>—</b></u>	<u><b>(105)</b></u>	<u><b>(153)</b></u>	<u><b>638</b></u>	<u><b>5,670</b></u>

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**17. Borrowings**

	<u>2017</u>	<u>2016</u>
<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:

	Note	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

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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.

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**(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.

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

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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
	<u><b>65,409</b></u>	<u>40,253</u>

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
	<u><b>66,559</b></u>	<u>45,311</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 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
	<u><b>11,327</b></u>	<u>11,028</u>
Future finance charges on finance leases . . . . .	<b>(3,631)</b>	(3,956)
	<u><b>7,696</b></u>	<u>7,072</u>

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
	<u><b>7,696</b></u>	<u>7,072</u>

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The movement of borrowings was as follows:

	Long-term borrowings	Short-term borrowings	Finance lease liabilities	Total liabilities from financing activities
<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 .....	(38)	5	853	820
<b>December 31, 2016</b> .....	39,836	5,551	7,072	52,459
Cash flows .....	11,540	(2,170)	(446)	8,924
Non-cash changes:				
Acquisitions (Note 30) .....	11,366	856	251	12,473
Foreign exchange adjustment .....	1,271	631	—	1,902
Others .....	1,032	(11)	819	1,840
<b>December 31, 2017</b> .....	65,045	4,857	7,696	77,598

**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:

	2017	2016
Pension plans .....	1,111	4,849
Medical and other post-employment benefit plans .....	34,650	39,431
Permanent and Total Disability ("PTD") and Chronic Medical Condition ("CMC") ...	2,430	2,505
<b>Net benefit liability</b> .....	38,191	46,785



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The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net benefit obligation by funding:</b>				
Present value of funded obligations	<b>50,454</b>	45,585	<b>92,175</b>	87,893
Fair value of plan assets	<b>(53,726)</b>	(44,989)	<b>(61,661)</b>	(51,867)
<b>Benefit (surplus)/deficit</b>	<b>(3,272)</b>	596	<b>30,514</b>	36,026
Present value of unfunded obligations	<b>4,383</b>	4,253	<b>6,566</b>	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	<b>49,838</b>	50,561	<b>93,803</b>	80,618
Current service cost	<b>2,865</b>	2,895	<b>2,123</b>	1,755
Interest cost	<b>2,039</b>	2,107	<b>4,005</b>	3,743
Past service cost	<b>176</b>	476	<b>187</b>	431
Remeasurement	<b>2,664</b>	1,099	<b>(158)</b>	8,865
Plan participants' contribution	<b>116</b>	120	—	—
Benefits paid	<b>(3,450)</b>	(6,765)	<b>(1,639)</b>	(1,609)
Settlements	<b>(848)</b>	(634)	—	—
Motiva acquisition	<b>1,395</b>	—	<b>278</b>	—
Foreign currency translation and other	<b>42</b>	(21)	<b>142</b>	—
<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	<b>(44,989)</b>	(43,628)	<b>(51,867)</b>	(46,624)
Interest income	<b>(1,781)</b>	(1,796)	<b>(2,201)</b>	(2,138)
Remeasurement	<b>(6,173)</b>	300	<b>(3,930)</b>	(3,206)
Employer contributions	<b>(4,247)</b>	(7,305)	<b>(5,302)</b>	(1,508)
Benefits paid	<b>3,450</b>	6,765	<b>1,639</b>	1,609
Settlements	<b>848</b>	634	—	—
Motiva acquisition	<b>(690)</b>	—	—	—
Foreign currency translation and other	<b>(144)</b>	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.

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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:

	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<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>3,299</b>	<b>3,682</b>	<b>4,114</b>	<b>3,791</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>(3,509)</b>	1,399	<b>(4,088)</b>	5,659
Net defined benefit cost before income taxes .....	<b>(210)</b>	5,081	<b>26</b>	9,450

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:

	<b>Pension benefits</b>		<b>Other benefits</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
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:

	<b>Saudi Plans</b>		<b>US Plans</b>	
<b>Life expectancy at age:</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
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

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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.

	<b>Change in Assumption</b>	<b>Impact on obligation</b>	<b>2017</b>	<b>2016</b>
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:**

	<b>2017</b>	<b>2016</b>
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.

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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, 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>

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**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).

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**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:

	<u>2017</u>	<u>2016</u>
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><u>21,586</u></b>	<b><u>16,602</u></b>

**(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.

**(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.



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(“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 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

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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.

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 . . . . .	<b>10,575</b>	675
Commodity swap contracts . . . . .	<b>4,541</b>	5,670
Currency forward contracts . . . . .	<b>4,148</b>	1,755
	<u><b>19,264</b></u>	<u>8,100</u>

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**27. Purchases**

	<u>2017</u>	<u>2016</u>
Refined products and chemicals .....	<b>95,575</b>	50,100
Crude oil .....	<b>24,823</b>	3,131
	<u><b>120,398</b></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 .....	<b>27,681</b>	27,822
Social security costs .....	<b>1,713</b>	1,710
Post-retirement benefits (Note 18):		
Defined benefit plans .....	<b>7,413</b>	7,473
Defined contribution plans .....	<b>861</b>	852
	<u><b>37,668</b></u>	<u>37,857</u>

**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.

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**(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.

**(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:

	<u>2017</u>	<u>2016</u>
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><u>143</u></b>	<b><u>259</u></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.

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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.

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 . . . . .	(12,431)
Total identifiable net assets at fair value . . . . .	24,165
Acquisition date fair value of previously held interest . . . . .	(20,824)
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%

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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.

**(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 . . . . .	(19)
Total identifiable net assets at fair value . . . . .	9,299
Saudi Aramco 50% share . . . . .	4,650
Goodwill . . . . .	690
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.



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**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

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	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 Employment LLC . . . . .	Personnel and other support services	USA	—	—	—
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 1 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 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>
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	—	—
<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 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**



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**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.

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.

#### ***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.

#### ***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	As at 31 December 2018	As at 31 December 2017
<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)

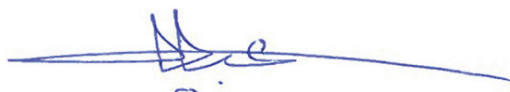
	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Net income for the year .....		<b>31,885,407</b>	25,484,745
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to the consolidated statement of income (net of tax):</i>			
—Re-measurement gain on defined 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)

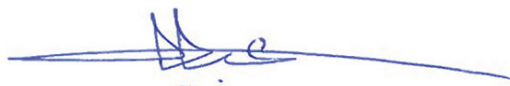
	Attributable to the equity holders of the Parent						Non-	
	Share capital	Statutory reserve	General reserve	Other reserves	Retained earnings	Total	controlling interests	Total equity
	(Note 20)							
Balance as at 31 December 2017 .....	30,000,000	15,000,000	110,889,032	(2,249,663)	10,282,264	163,921,633	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 .....	—	—	—	—	21,520,678	21,520,678	10,364,729	31,885,407
Other comprehensive income ...	—	—	—	501,454	—	501,454	398,677	900,131
Total comprehensive income ...	—	—	—	501,454	21,520,678	22,022,132	10,763,406	32,785,538
Dividends (Note 39) and others ...	—	—	—	—	(13,200,000)	(13,200,000)	(8,629,709)	(21,829,709)
Balance as at 31 December 2018 .....	30,000,000	15,000,000	110,889,032	(1,359,184)	18,554,532	173,084,380	48,352,095	221,436,475
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 .....	30,000,000	15,000,000	110,889,032	(2,249,663)	10,282,264	163,921,633	46,216,859	210,138,492



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.

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**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>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(16,550,425)</b>	<b>17,725,916</b>
Cash and cash equivalents at the beginning of the year	18	<b>57,973,656</b>	<b>40,247,740</b>
<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.

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**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

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**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.

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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 assumptions used to determine the recoverable amount for the different CGUs are disclosed in Notes 7 and 8.



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**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.

**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

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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 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

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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

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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:

	Measurement under IAS 39	Measurement under IFRS 9	Carrying value under IAS 39	Carrying value under IFRS 9	Changes on adoption of IFRS 9
<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	Amortised 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 cost	Amortised cost	22,609,432	22,569,822	(39,610)
Other receivables . . . . .	Amortised cost	Amortised 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:

	Non- controlling interests	Other reserves	Retained earnings
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

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**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.

**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

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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 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.



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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.

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.

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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.

**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.

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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.

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

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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.

**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.

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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.

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's estimates the asset's or CGU's recoverable amount. A previously

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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 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



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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.

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

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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.

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.

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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.

**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.

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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 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.

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*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 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

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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.

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.



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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.

**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 . . . . .	32,568,001	294,428,552	1,046,979	745,682	1,326,263	20,267,943	350,383,420
<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 . . . . .	(15,616,034)	(168,831,092)	(792,790)	(579,320)	(709,901)	(34,599)	(186,563,736)
Net book amounts:							
At 31 December 2018 . . . . .	16,951,967	125,597,460	254,189	166,362	616,362	20,233,344	163,819,684
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.

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	For the year ended 31 December 2017						
	Land and buildings	Plant and equipment	Furniture and fixtures	Vehicles	Finance lease	Assets under construction	Total
Cost:							
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	31,853,024	281,502,829	1,016,897	755,245	1,217,233	24,894,448	341,239,676
Accumulated depreciation and impairment:							
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	(14,807,964)	(156,161,828)	(754,507)	(554,027)	(633,818)	(971,621)	(173,883,765)
Net book amounts:							
At 31 December 2017	17,045,060	125,341,001	262,390	201,218	583,415	23,922,827	167,355,911
At 1 January 2017	16,897,918	127,304,035	275,185	238,832	632,062	25,001,950	170,349,982

**Allocation of depreciation charge for the year**

	For the year ended 31 December 2018	For the year ended 31 December 2017
Cost of sales	13,903,349	13,268,321
Selling and distribution expenses	59,737	74,328
General and administrative expenses	509,351	585,568
Total	14,472,437	13,928,217

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.

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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 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					
	Goodwill	Software and IT development	Licenses	Others <sup>(i)</sup>	Intangibles under development	Total
<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 . . . . .	8,743,895	2,153,448	10,181,769	54,254	3,045	21,136,411
<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 . . . . .	—	(1,631,010)	(6,545,451)	(12,739)	—	(8,189,200)
Net book amounts:						
At 31 December 2018 . . . . .	8,743,895	522,438	3,636,318	41,515	3,045	12,947,211
At 1 January 2018 . . . . .	9,089,745	676,493	3,691,334	51,875	32,950	13,542,397

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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 . . . . .	9,089,745	2,328,153	9,906,856	105,741	32,950	21,463,445
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 . . . . .	—	(1,651,660)	(6,215,522)	(53,866)	—	(7,921,048)
Net book amounts:						
At 31 December 2017 . . . . .	9,089,745	676,493	3,691,334	51,875	32,950	13,542,397
At 1 January 2017 . . . . .	8,432,788	889,221	3,548,597	10,386	44,916	12,925,908

(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 . . . . .	529,906	818,741
General and administrative expenses . . . . .	133,738	98,826
Total . . . . .	663,644	917,567

**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.

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**9 Investments in associates and joint ventures**

The table below outlines the Group's investment in associates and joint venture companies:

<u>Name of associates and joint ventures</u>	<u>Ownership %</u>	<u>Place of business / country of incorporation</u>	<u>Nature of activities</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
<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.

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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.

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.



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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.

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**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>
	<b>As at 31 December 2018</b>				
Current assets . . . . .	<b>2,837,269</b>	<b>3,349,284</b>	<b>4,507,876</b>	<b>3,763,582</b>	<b>12,727,365</b>
Non-current assets . . . . .	<b>14,624,827</b>	<b>19,186,046</b>	<b>17,034,081</b>	<b>27,180,114</b>	<b>31,803,920</b>
Current liabilities . . . . .	<b>1,547,546</b>	<b>2,959,695</b>	<b>4,204,279</b>	<b>2,330,057</b>	<b>8,770,556</b>
Non-current liabilities . . . . .	<b>8,828,324</b>	<b>12,739,537</b>	<b>6,536,255</b>	<b>19,705,388</b>	<b>14,746,700</b>
Net assets . . . . .	<b>7,086,226</b>	<b>6,836,098</b>	<b>10,801,423</b>	<b>8,908,251</b>	<b>21,014,029</b>
Reconciliation:					
Group's share in % . . . . .	<b>30.00%</b>	<b>24.81%</b>	<b>20.62%</b>	<b>15.00%</b>	<b>24.99%</b>
Group's share in associate . . . . .	<b>2,125,868</b>	<b>1,696,036</b>	<b>2,227,253</b>	<b>1,336,238</b>	<b>5,251,406</b>
Intangible / goodwill . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>540,000</b>	<b>5,298,750</b>
Carrying amount . . . . .	<b>2,125,868</b>	<b>1,696,036</b>	<b>2,227,253</b>	<b>1,876,238</b>	<b>10,550,156</b>
	<b>For the year ended 31 December 2018</b>				
Revenue . . . . .	<b>5,215,648</b>	<b>4,053,837</b>	<b>9,075,806</b>	<b>1,163,825</b>	<b>25,393,900</b>
Net income for the year—all from continuing operations . . . . .	<b>705,082</b>	<b>228,214</b>	<b>594,270</b>	<b>415,816</b>	<b>1,364,975</b>
Reconciliation:					
Group's share in % . . . . .	<b>30.00%</b>	<b>24.81%</b>	<b>20.62%</b>	<b>15.00%</b>	<b>24.99%</b>
Group's share in associate . . . . .	<b>211,525</b>	<b>56,620</b>	<b>122,538</b>	<b>62,372</b>	<b>341,107</b>
Share in earnings (losses) <sup>(iii)</sup> . . . . .	<b>163,160</b>	<b>(7,977)</b>	<b>150,543</b>	<b>77,169</b>	<b>(106,973)</b>

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).

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	<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 .....	6,534,253	6,929,554	10,438,578	8,399,183
Reconciliation:				
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>
	<u>For the year ended 31 December 2017</u>			
Revenue .....	4,253,916	3,983,429	8,494,263	1,096,917
Net income for the year—all from continuing operations .....	248,200	337,384	952,056	478,080
Reconciliation:				
Group's share in % .....	30.00%	24.81%	20.62%	15.00%
Group's share in associate .....	74,460	83,705	196,314	71,712
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>
Reconciliation:		
Group's share in % .....	<b>50.00%</b>	50.00%
Group's share in joint venture .....	<b>4,770,486</b>	4,031,268
Carrying amount .....	<u><b>4,770,486</b></u>	<u>4,031,268</u>

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	For the year ended 31 December 2018	For the year ended 31 December 2017
Revenue .....	10,334,966	12,844,702
Depreciation and amortisation .....	483,784	(446,064)
Interest income .....	94,355	57,921
Interest expense .....	(95,467)	(123,731)
Income tax expense .....	(559,773)	(709,951)
Net income for the year—all from continuing operations .....	<u>1,663,456</u>	<u>2,119,386</u>
Reconciliation:		
Group's share in % .....	<u>50.00%</u>	50.00%
Group's share of earnings in joint venture .....	<u>831,728</u>	1,059,693
Share of earnings .....	<u>831,728</u>	<u>1,059,693</u>

**Summarised financial information of individually immaterial associates and joint venture**

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	Individually immaterial associates	Individually immaterial joint ventures	Individually immaterial associates	Individually immaterial joint ventures
Net income (loss) for the year—all from continuing operations .....	<u>556,571</u>	<u>20,013</u>	72,364	(43,995)

**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**

	31 December 2018	31 December 2017
<b>Current (in short-term investments)</b>		
Fixed rate instruments .....	93,750	—
Floating rate instrument .....	481,460	390,320
	<u>575,210</u>	<u>390,320</u>
<b>Non-current</b>		
Fixed rate instruments .....	1,146,865	1,755,531
Floating rate instrument .....	1,347,015	1,299,630
	<u>2,493,880</u>	<u>3,055,161</u>
	<u>3,069,090</u>	<u>3,445,481</u>

As at 2017, the investments in debt instruments were classified as held-to-maturity investments (Note 4).

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*Currency exposure*

	<u>31 December 2018</u>	<u>31 December 2017</u>
SR .....	<b>1,641,779</b>	2,029,856
USD .....	<b>1,427,311</b>	1,415,625
	<b><u>3,069,090</u></b>	<b><u>3,445,481</u></b>

**11 Investments in equity instruments**

Carrying value of the investments in equity instruments carried at FVOCI are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<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><u>1,090,109</u></b>	<u>696,223</u>
Total .....	<b><u>1,090,109</u></b>	<b><u>696,243</u></b>

As at 2017, the investments in equity instruments were classified as available-for-sale financial assets (Note 4).

**12 Other non-current assets**

	<u>31 December 2018</u>	<u>31 December 2017</u>
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-imbursement of tax receivable .....	—	244,112
Others .....	<b>808,080</b>	710,767
	<b><u>5,126,456</u></b>	<b><u>4,219,500</u></b>

**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-imbursement 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.

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**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>(ii)</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>



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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>	<u>91,778,504</u>	<u>91,055,455</u>	<u>26,806</u>	<u>696,243</u>	<u>4,182,342</u>	<u>20</u>	<u>4,182,322</u>	<u>—</u>
<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>	<u>78,488,759</u>	<u>78,472,523</u>	<u>16,236</u>	<u>—</u>	<u>56,955,535</u>	<u>—</u>	<u>56,955,535</u>	<u>—</u>

(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.

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- 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:

Valuation technique	Significant unobservable input	Range
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

	31 December 2018	31 December 2017
Finished goods . . . . .	17,561,580	15,547,664
Raw materials . . . . .	4,202,729	4,445,988
Spare parts . . . . .	5,890,142	5,560,723
Goods in transit . . . . .	2,260,171	2,163,711
Work in process . . . . .	46,227	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>28,244,803</b>	26,062,995

Movements in the provision for obsolete inventories were as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Balance at 1 January . . . . .	1,776,274	1,500,026
(Reversal) charge for the year . . . . .	(60,228)	276,248
Balance at 31 December . . . . .	<b>1,716,046</b>	1,776,274

The Group's exposure to commodity price risks is disclosed in Note 36.

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**15 Trade receivables**

	31 December 2018	31 December 2017
Trade receivables .....	19,111,571	19,838,279
Due from related parties .....	3,116,951	3,134,896
	<u>22,228,522</u>	<u>22,973,175</u>
Less: allowance for expected credit losses .....	(406,673)	(363,743)
	<u>21,821,849</u>	<u>22,609,432</u>

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) .....		0.15%	1.72%	29.16%	17.34%	35.28%	52.07%
Gross carrying amount ...	22,228,522	20,442,712	968,193	34,856	114,193	108,073	560,495
Expected credit loss .....	<u>406,673</u>	<u>30,095</u>	<u>16,655</u>	<u>10,165</u>	<u>19,797</u>	<u>38,132</u>	<u>291,829</u>
<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 .....	<u>403,353</u>	<u>22,860</u>	<u>15,940</u>	<u>7,284</u>	<u>21,886</u>	<u>60,300</u>	<u>275,083</u>

Movements in the allowance for expected credit losses were as follows:

	2018	2017
Opening balance .....	363,743	247,087
Additional allowance for expected credit losses on adoption of IFRS 9 (Note 4) .....	39,610	—
As at 1 January .....	403,353	247,087
Charge for the year .....	70,411	175,774
Write-off /reversals during the year .....	(67,091)	(59,118)
As at 31 December .....	<u>406,673</u>	<u>363,743</u>

**16 Prepayments and other current assets**

	31 December 2018	31 December 2017
Prepaid expenses .....	1,897,589	1,811,990
Taxes and subsidies receivable .....	1,198,681	920,506
Current portion of loan receivable from related parties .....	184,760	238,760
Finance income receivable .....	152,964	147,627
Employee advances and receivables .....	76,569	91,267
Others .....	1,604,294	2,491,166
	<u>5,114,857</u>	<u>5,701,316</u>

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**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
	<u>9,815,499</u>	<u>4,351,072</u>

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
	<u>42,590,820</u>	<u>59,038,656</u>

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
Cash and bank balances .....	42,590,820	59,038,656
Less: bank overdrafts .....	(1,167,589)	(1,065,000)
<b>Cash and cash equivalents at the end of the year .....</b>	<b><u>41,423,231</u></b>	<b><u>57,973,656</u></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><u>59,696,408</u></b>	<b><u>21,890,734</u></b>	<b><u>(31,676,712)</u></b>	<b><u>126,493</u></b>	<b><u>50,036,923</u></b>

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	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.

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*Other reserves*

The following table shows a breakdown of 'other reserves' and the movements during the year:

<b>31 December 2018</b>	<b>Equity instruments and others at FVOCI</b>	<b>Foreign currency translation</b>	<b>Actuarial gain/loss</b>	<b>Cash flow hedge</b>	<b>Total</b>
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 . . . . .	—	(1,301,215)	—	—	(1,301,215)
Re-measurement impact of employee benefit obligations . . . . .	—	—	1,744,012	—	1,744,012
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 . . . . .	—	31,996	1,596	20,185	53,777
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>

<b>31 December 2017</b>	<b>Available-for-sale financial assets</b>	<b>Foreign currency translation</b>	<b>Actuarial gain/loss</b>	<b>Cash flow hedge</b>	<b>Total</b>
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 . . . . .	<b>(10,023)</b>	<b>2,783,514</b>	<b>231,660</b>	<b>53,169</b>	<b>3,058,320</b>
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.



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**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.

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**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
<b>Current net assets . . . . .</b>	<b>4,883,660</b>	<b>490,539</b>	<b>3,447,073</b>	<b>6,483,922</b>	<b>1,552,343</b>	<b>1,181,222</b>	<b>1,394,717</b>	<b>5,877,978</b>
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
<b>Non-current net assets . . . . .</b>	<b>12,372,035</b>	<b>2,042,847</b>	<b>3,567,807</b>	<b>11,427,847</b>	<b>8,427,880</b>	<b>321,550</b>	<b>6,511,332</b>	<b>9,820,382</b>
<b>Net assets . . . . .</b>	<b>17,255,695</b>	<b>2,533,386</b>	<b>7,014,880</b>	<b>17,911,769</b>	<b>9,980,223</b>	<b>1,502,772</b>	<b>7,906,049</b>	<b>15,698,360</b>
<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
<b>Current net assets . . . . .</b>	<b>4,259,844</b>	<b>1,085,624</b>	<b>2,895,875</b>	<b>7,219,284</b>	<b>1,469,764</b>	<b>1,004,606</b>	<b>406,977</b>	<b>3,461,008</b>
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
<b>Non-current net assets . . . . .</b>	<b>12,477,586</b>	<b>1,978,712</b>	<b>3,434,779</b>	<b>11,940,166</b>	<b>7,813,720</b>	<b>340,594</b>	<b>6,453,648</b>	<b>10,447,038</b>
<b>Net assets . . . . .</b>	<b>16,737,430</b>	<b>3,064,336</b>	<b>6,330,654</b>	<b>19,159,450</b>	<b>9,283,484</b>	<b>1,345,200</b>	<b>6,860,625</b>	<b>13,908,046</b>
<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.

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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							
	YANSAB	AR RAZI	YANPET	SHARQ	KEMYA	IBN RUSHD	SAFCO	KAYAN
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)

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	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	(623,979)	(66,654)	(191,146)	1,119,707	(416,711)	(20,540)	(40,388)	1,126,998

## 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>	<u>8,535,254</u>
Obligations under finance leases (Note 37)	5.7% to 9.6%	<u>85,502</u>	<u>93,301</u>
Bonds	2.63%	<u>—</u>	<u>3,744,901</u>
Notes	SAIBOR variable rate	<u>—</u>	<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>	<u>35,500,304</u>
Obligations under finance leases (Note 37)	5.7% to 9.6%	<u>653,423</u>	<u>771,712</u>
Notes	SAIBOR variable rate	<u>—</u>	<u>2,000,000</u>
Bonds	2.75%	<u>10,633,950</u>	<u>3,352,716</u>
		<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 issued in accordance with Rule 144A/Reg S offering requirements under the U.S. Securities Act of

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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>	<b><u>58,063,188</u></b>

## 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>	<b><u>16,574,432</u></b>
<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>	<b><u>1,060,604</u></b>
	<b><u>15,000,025</u></b>	<b><u>17,635,036</u></b>

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.

### 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

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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.

*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.



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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.

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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

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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)
	100,961	(156,096)	(38,597)	(93,732)
Foreign currency	—	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



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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%
	9% in 2019 decrease to 5% for 2023+		
Inflation rate (health care cost) .....		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%
	10% in 2018 decrease to 5% for 2023+		
Inflation rate (health care cost) .....		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) .....	(287,462)	(104,965)	(129,394)	(33,532)
Salary (+25 bps) .....	278,079	133	30,668	7,745
Pension (+25 bps) .....	NA	—	94,662	17,641
Longevity (+1 year) .....	NA	38,245	71,718	(14,807)
Health care costs (+25 bps) .....	23,010	NA	NA	NA
<b><i>Decrease</i></b>				
Discount rate (-25 bps) .....	299,478	111,092	138,607	35,715
Salary (-25 bps) .....	(268,468)	(131)	(29,895)	(7,358)
Pension (-25 bps) .....	NA	—	(89,594)	(16,685)
Longevity (-1 year) .....	NA	(39,562)	(71,355)	14,511
Health care costs (-25 bps) .....	(21,991)	NA	NA	NA

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	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>
Total . . . . .	<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
Total . . . . .	9,788,459	4,829,329

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).



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**24 Trade payables**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade accounts payable . . . . .	<b>14,938,392</b>	17,886,738
Amounts due to related parties . . . . .	<b>30,965</b>	174,726
	<u><b>14,969,357</b></u>	<u>18,061,464</u>

The Group's exposure to currency and liquidity risk related to accounts payables is disclosed in Note 36.

**25 Accruals and other current liabilities**

	<u>31 December 2018</u>	<u>31 December 2017</u>
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
	<u><b>13,016,884</b></u>	<u>10,124,246</u>

**26 Derivatives**

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b><i>Derivative asset:</i></b>		
<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 . . . . .	<u><b>29,651</b></u>	<u>26,806</u>
Notional amount . . . . .	<u><b>615,342</b></u>	<u>1,070,622</u>

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b><i>Derivative liability:</i></b>		
<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 . . . . .	<u><b>381</b></u>	<u>16,236</u>
Notional amount . . . . .	<u><b>291,967</b></u>	<u>716,645</u>

(i) On adoption of IFRS 9, these derivatives have been combined with host contracts.

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**27 Revenue**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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
	<b><u>169,128,339</u></b>	<b><u>149,765,968</u></b>

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**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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
	<b><u>111,520,471</u></b>	<b><u>99,858,243</u></b>

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**28.2 General and administrative expenses**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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**

	For the year ended 31 December 2018	For the year ended 31 December 2017
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>

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**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	2,843,143	1,361,174	4,204,317

	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	2,619,140	1,056,100	3,675,240

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	865,156	1,664,138	673,983	1,752,443

(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.

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**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:

	For the year ended 31 December 2018	For the year ended 31 December 2017
<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>—</b>	<b>—</b>
<b><i>Deferred corporate income tax</i></b>		
(Decrease) increase in deferred tax, net .....	<b>(305,745)</b>	73,671
Total income tax expense reported in the consolidated statement of income	<b><u>1,197,661</u></b>	<b><u>1,540,000</u></b>
	For the year ended 31 December 2018	For the year ended 31 December 2017
<b><i>Deferred tax related to items recognised in OCI during in the year</i></b>		
—Deferred tax expense on actuarial gains and losses .....	<b>5,204</b>	61,349
<b>Deferred tax charged to OCI .....</b>	<b><u>5,204</u></b>	<b><u>61,349</u></b>

The numerical reconciliation of income tax expense derived from the accounting profit is presented in the table below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Income before zakat and income tax .....	<b>35,683,068</b>	29,624,745
Exclude: income subject to Zakat .....	<b>(27,830,507)</b>	(23,521,746)
Income subject to income tax .....	<b>7,852,561</b>	6,102,999
<b>Domestic income tax rate (KSA) .....</b>	<b>20%</b>	20%
<b>Income tax at domestic tax rate .....</b>	<b><u>1,570,512</u></b>	<b><u>1,220,600</u></b>
<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 .....	<b>10,107</b>	12,150
<b>Income tax expense .....</b>	<b><u>1,197,661</u></b>	<b><u>1,540,000</u></b>
<b>Zakat expense .....</b>	<b><u>2,600,000</u></b>	<b><u>2,600,000</u></b>
<b>Total income tax and zakat expense .....</b>	<b><u>3,797,661</u></b>	<b><u>4,140,000</u></b>

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Components of deferred tax are as follows:

	31 December 2018	31 December 2017
<i>Difference in accounting and tax base related to:</i>		
—Tangible and intangible assets	(3,466,676)	(3,200,976)
—Inventories	(29,120)	(27,413)
—Reserves	(204,670)	(195,011)
—Others	(23,997)	(27,011)
<b>Deferred tax liabilities</b>	<b>(3,724,463)</b>	<b>(3,450,411)</b>
Set-off with deferred tax assets	2,060,325	1,697,968
<b>Net deferred tax liabilities</b>	<b>(1,664,138)</b>	<b>(1,752,443)</b>
Net operating losses	7,279,239	6,824,447
<i>Difference in accounting and tax base related to:</i>		
—Tangible and intangible assets	445,332	320,871
—Employee benefits	583,956	967,003
—Deferred charges	10,912	164,163
—Provisions on receivables and inventories	355,480	286,524
—Tax credits	145,754	151,241
—Others	76,571	41,512
<b>Deferred tax assets</b>	<b>8,897,244</b>	<b>8,755,761</b>
Un-recognised deferred tax assets	(5,971,763)	(6,383,810)
Set-off with deferred tax liabilities	(2,060,325)	(1,697,968)
<b>Net deferred tax assets</b>	<b>865,156</b>	<b>673,983</b>

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.



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The following reflects the income and share data used in the basic and diluted earnings per share computations:

	For the year ended 31 December 2018	For the year ended 31 December 2017
Income from operations (SR '000) . . . . .	<b>36,263,024</b>	28,998,387
Net income attributable to equity holders of the Parent (SR '000) . . . . .	<b>21,520,678</b>	18,430,236
Weighted average number of ordinary shares ('000) . . . . .	<b>3,000,000</b>	3,000,000
Earnings per share from income from operations (SR) . . . . .	<b>12.09</b>	9.67
Earnings per share from net income attributable to equity holders of the Parent (SR) . . . . .	<b>7.17</b>	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:

	31 December 2018	31 December 2017
<b><i>Cash and bank balances</i></b>		
—Conventional call (excluding Fixed term deposits) . . . . .	<b>11,221,338</b>	12,485,139
—Conventional time deposits . . . . .	<b>3,556,550</b>	4,318,927
Conventional cash and bank balances . . . . .	<b>14,777,888</b>	16,804,066
—Murabaha (including fixed term deposits) . . . . .	<b>25,881,062</b>	40,153,002
—Current accounts (excluding fixed term deposits) . . . . .	<b>1,931,870</b>	2,081,588
Non-conventional cash and bank balances . . . . .	<b>27,812,932</b>	42,234,590
<b>Total cash and bank balances . . . . .</b>	<b>42,590,820</b>	59,038,656
<b><i>Short-term and investments in debt instruments</i></b>		
—Bonds and floating rate notes . . . . .	<b>556,151</b>	543,750
—Conventional time deposits . . . . .	<b>478,075</b>	123,963
<b>Conventional short-term and investments in debt instruments . . . . .</b>	<b>1,034,226</b>	667,713
—Murabaha (including fixed time deposits) . . . . .	<b>8,762,214</b>	3,836,790
—SUKUK . . . . .	<b>1,861,143</b>	2,264,140
—Murabaha structured deposits . . . . .	<b>651,796</b>	637,590
Non-Conventional short-term and investments in debt instruments	<b>11,275,153</b>	6,738,520
<b>Total short-term and investments in debt instruments . . . . .</b>	<b>12,309,379</b>	7,406,233
<b><i>Investments in equity instruments at FVOCI</i></b>		
—Mutual funds . . . . .	<b>305,294</b>	299,407
—Equity investments . . . . .	<b>784,815</b>	396,836
Conventional investments in equity instruments at FVOCI . . . . .	<b>1,090,109</b>	696,243
<b>Total Investments in equity instruments at FVOCI . . . . .</b>	<b>1,090,109</b>	696,243

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	<u>31 December 2018</u>	<u>31 December 2017</u>
<b><i>Short-term borrowings</i></b>		
—Conventional short-term borrowings . . . . .	<u>1,167,589</u>	<u>1,065,000</u>
<b><i>Total short-term borrowings</i></b> . . . . .	<u>1,167,589</u>	<u>1,065,000</u>
<b><i>Long and short-term debt</i></b>		
—Conventional loans . . . . .	<u>11,796,848</u>	24,071,844
—Bonds/notes . . . . .	<u>10,633,950</u>	12,097,616
—Finance leases . . . . .	<u>738,925</u>	865,013
Conventional long-term debt . . . . .	<u>23,169,723</u>	<u>37,034,473</u>
—Ijarah facilities . . . . .	<u>4,761,727</u>	5,073,886
—SIDF . . . . .	<u>1,678,192</u>	2,012,726
—Murabaha . . . . .	<u>16,486,010</u>	12,877,103
Non-conventional long-term debt . . . . .	<u>22,925,929</u>	19,963,715
<b>Total long-term debt</b> . . . . .	<u>46,095,652</u>	<u>56,998,188</u>
<b>Total debt</b> . . . . .	<u>47,263,241</u>	<u>58,063,188</u>
	<u>For the year ended</u>	<u>For the year ended</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
<b><i>Borrowing cost capitalised during the year:</i></b>		
—Conventional loans . . . . .	<u>23,568</u>	<u>75,867</u>
Borrowing costs capitalised from conventional loans . . . . .	<u>23,568</u>	<u>75,867</u>
—Murabaha loans and SIDF . . . . .	<u>15,151</u>	<u>102,482</u>
Borrowing costs capitalised from non-conventional loans . . . . .	<u>15,151</u>	<u>102,482</u>
<b>Total borrowing cost capitalised during the year</b> . . . . .	<u>38,719</u>	<u>178,349</u>

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	For the year ended 31 December 2018	For the year ended 31 December 2017
<b><i>Finance income</i></b>		
—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 . . . . .	284,655	188,385
—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 . . . . .	1,138,065	1,058,672
<b>Total finance income . . . . .</b>	<b>1,422,720</b>	<b>1,247,057</b>
<b><i>Finance cost</i></b>		
—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
—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
				804,789
			<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
				5,749,221
				652,836



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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.

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 . . . . .				35,683,068

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	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 .....				29,624,745

	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

**Geographical distribution of revenue**

	31 December 2018		31 December 2017	
		%		%
KSA .....	25,270,853	15%	22,751,799	15%
China .....	29,713,216	17%	25,404,525	17%
Rest of Asia .....	36,386,396	22%	32,595,863	22%
Europe .....	39,449,558	23%	35,913,940	24%
Americas .....	14,796,092	9%	12,744,946	8%
Others <sup>(i)</sup> .....	23,512,224	14%	20,354,895	14%
	<b>169,128,339</b>	<b>100%</b>	<b>149,765,968</b>	<b>100%</b>

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 .....	138,563,584	85%	143,163,921	86%
Europe <sup>(ii)</sup> .....	13,948,735	8%	15,086,965	9%
Americas <sup>(ii)</sup> .....	9,759,324	6%	7,383,489	4%
Asia <sup>(ii)</sup> .....	1,545,226	1%	1,718,893	1%
Others <sup>(ii)</sup> .....	2,815	—	2,643	—
	<b>163,819,684</b>	<b>100%</b>	<b>167,355,911</b>	<b>100%</b>

- (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.



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**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.

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.

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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.

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							Carrying value in the statement of financial position
<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>	
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
Total . . . . .	<u>583,350</u>	<u>426,408</u>	<u>1,589,085</u>	<u>24,406,985</u>	<u>12,531,552</u>	<u>8,117,530</u>	<u>8,364,659</u>	<u>56,019,569</u>

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31 December 2017								Carrying value in the statement of financial position
External Rating	AA+	AA	AA-	A+	A	A-	Others	
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.

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			
	Within 1 year	Between 1-5 years	More than 5 years	Total
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
	<b>23,594,103</b>	<b>35,426,705</b>	<b>6,019,150</b>	<b>65,039,958</b>

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	31 December 2017			
	Within 1 year	Between 1-5 years	More than 5 years	Total
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.

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:

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	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
	<u>18,383</u>	<u>(174,037)</u>

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	<u>(720,305)</u>	<u>(700,560)</u>	<u>1,492,982</u>	<u>111,719</u>

	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	<u>(2,775,219)</u>	<u>(1,164,038)</u>	<u>687,962</u>	<u>1,510,934</u>

**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
3M SAIBOR	114	(114)
6M SAIBOR	(2,129)	2,129
9M SAIBOR	(778)	778
1M LIBOR	(94)	94
6M LIBOR	(6,394)	6,394

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	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.

**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:

	31 December 2018	31 December 2017
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.



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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.

**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
	<u>8,905,562</u>	<u>6,557,536</u>

**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 . . . . .	<u>738,925</u>	<u>738,925</u>

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	<b>31 December 2017</b>	
	<b>Minimum Payments</b>	<b>Present value of payments</b>
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 . . . . .	<u>865,013</u>	<u>865,013</u>

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:

	<b>31 December 2018</b>	
	<b>Minimum lease receivable</b>	<b>Present value</b>
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 . . . . .	<u>256,075</u>	<u>256,075</u>

	<b>31 December 2017</b>	
	<b>Minimum lease receivable</b>	<b>Present value</b>
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 . . . . .	<u>287,878</u>	<u>287,878</u>

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.

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**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

**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.

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**41 Subsidiaries**

SABIC Group's subsidiaries are set out below:

	Country of incorporation	% Shareholding (direct and indirect) as at 31 December 2018	% Shareholding (direct and indirect) as at 31 December 2017
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
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.

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- 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

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**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
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



**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
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(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
<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
SABIC Korea Ltd. ....	Korea	<b>100.00</b>	100.00
SABIC Luxembourg S.à r.l. ....	Luxembourg	<b>100.00</b>	100.00
SABIC Innovative Plastics Malaysia Sdn Bhd . . . . .	Malaysia	<b>100.00</b>	100.00
SABIC Innovative Plastics Mexico S de RL de CV . . . . .	Mexico	<b>100.00</b>	100.00
SABIC Innovative Plastics Servicios Mexico S de RL de CV . . . . .	Mexico	<b>100.00</b>	100.00
BV Snij-Unie HiFi . . . . .	Netherlands	<b>100.00</b>	100.00
FRT B.V. . . . .	Netherlands	<b>95.00</b>	95.00
FRT Tapes B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Capital B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Capital I B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Capital II B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Innovative Plastics GP B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Innovative Plastics Holding B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Innovative Plastics Utilities B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Licensing B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Limburg B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Sales Europe B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Petrochemicals B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Ventures B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Mining B.V. . . . .	Netherlands	<b>100.00</b>	100.00
Petrochemical Pipeline Services B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Europe B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC International Holdings B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Innovative Plastics B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Global Technologies B.V. . . . .	Netherlands	<b>100.00</b>	100.00
SABIC Innovative Plastics Poland Sp. Z o.o. . .	Poland	<b>100.00</b>	100.00
SABIC Poland Sp. Z o.o. . . . .	Poland	<b>100.00</b>	100.00
LLC SABIC Eastern Europe . . . . .	Russia	<b>100.00</b>	100.00
SABIC Innovative Plastics Russia Z o.o. . . . .	Russia	<b>100.00</b>	100.00

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**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
<b>Subsidiaries</b>			
SABIC Innovative Plastics (SEA) Pte. Ltd. . . . .	Singapore	<b>100.00</b>	100.00
SABIC Innovative Plastics Holding Singapore Pte. Ltd. . . . .	Singapore	<b>100.00</b>	100.00
SABIC Innovative Plastics Singapore Pte. Ltd. . . . .	Singapore	<b>100.00</b>	100.00
SABIC Asia Pacific Pte Ltd . . . . .	Singapore	<b>100.00</b>	100.00
SABIC Innovative Plastics Espana ScpA . . . . .	Spain	<b>100.00</b>	100.00
SABIC Innovative Plastics GP BV, Sociedad en Comandita . . . . .	Spain	<b>100.00</b>	100.00
SABIC Sales Spain SL . . . . .	Spain	<b>100.00</b>	100.00
SABIC Marketing Ibérica S.A. . . . .	Spain	<b>100.00</b>	100.00
Saudi Innovative Plastics Sweden AB . . . . .	Sweden	<b>100.00</b>	100.00
SABIC Innovative Plastics (Thailand) Co. Ltd. . . . .	Thailand	<b>100.00</b>	100.00
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)

**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)

**41.2 SIIC Group Subsidiaries**

	<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>
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
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".

**SAUDI BASIC INDUSTRIES CORPORATION (SABIC) AND ITS SUBSIDIARIES**  
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**NOTES TO THE CONSOLIDATED STATEMENTS**

For the year ended 31 December 2018

(All amounts in Saudi Riyals '000 unless otherwise stated)

**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.

	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>% Shareholding (direct and indirect) as at 31 December 2018</b>	<b>% Shareholding (direct and indirect) as at 31 December 2017</b>
<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
<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.

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