## IMPORTANT NOTICE

**IMPORTANT: You must read the following before continuing**. The following applies to the Preliminary Base Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Preliminary Base Prospectus. In accessing the Preliminary 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 the Issuer or a Dealer (each as defined in the Preliminary Base Prospectus) 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 PRELIMINARY 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 PRELIMINARY 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 Preliminary 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 Preliminary Base Prospectus is being sent at your request and, by accepting the e-mail and accessing the Preliminary 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 Preliminary 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 Preliminary Base Prospectus by electronic transmission.

You are reminded that the Preliminary Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Preliminary 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 Preliminary Base Prospectus to any other person.

Under no circumstances shall the Preliminary 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 Preliminary 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 Preliminary 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 the Issuer (as defined in the Preliminary Base Prospectus) in such jurisdiction.

**This Preliminary 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 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 Preliminary Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any such Dealer.**

*This preliminary base prospectus is being distributed for information only and is subject to completion and amendment. This preliminary base prospectus shall not, and is not intended to, constitute or contain an offer or invitation to sell or the solicitation of an offer to buy, and may not be used as, or in connection with, an offer of invitation to sell or a solicitation to buy any securities. This preliminary base prospectus is an advertisement and does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129 (the "Prospectus Regulation"). The definitive terms of the programme and the securities described herein will be described in the final version of this document. Investors should not purchase any securities referred to herein except on the basis of information contained in the final form of this preliminary base prospectus. Once published, the final base prospectus will be made available to the public in accordance with the Prospectus Regulation.*

**SUBJECT TO AMENDMENT AND COMPLETION**
**PRELIMINARY BASE PROSPECTUS DATED 16 NOVEMBER 2020**

# SAUDI ARABIAN OIL COMPANY (SAUDI ARAMCO)

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

## Global Medium Term Note Programme

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Saudi Arabian Oil Company (Saudi Aramco) (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).

This Base Prospectus has been approved as a base prospectus by the Financial Conduct Authority (the "**FCA**") as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FCA should not be considered as an endorsement of the Issuer or of the quality of the Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of the Notes.

Application has been made (i) to the FCA 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 FCA (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 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 FCA and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

This Base Prospectus is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area ("**EEA**") or the United Kingdom or offered to the public in the EEA or the United Kingdom or offered to the public other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

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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 United Kingdom 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 as specified in the Final Terms. As at the date of this Base Prospectus, the administrators of LIBOR and EURIBOR are included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011.

***Arrangers and Dealers***

J.P. Morgan | Morgan Stanley

***Dealers***

Citigroup | Goldman Sachs International | HSBC | NCB Capital

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 8 of the Prospectus Regulation.

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 position 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 AND UNITED KINGDOM RETAIL INVESTORS

Unless the Final Terms in respect of any Notes specifies the "Prohibition of Sales to EEA and UK 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**") or the United Kingdom ("**UK**"). 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 "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPs Regulation.

## SINGAPORE: 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).

## 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 is 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 authorised. 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.

In this Base Prospectus, references to "**Saudi Aramco**" are to Saudi Arabian Oil Company (Saudi Aramco) together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.

Certain figures and percentages included in this 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 2018 Financial Statements and the 2019 Financial Statements have been prepared in accordance with IFRS and have been audited by Saudi Aramco's independent auditor, PricewaterhouseCoopers Public Accountants, as stated in its audit reports for the 2018 Financial Statements and the 2019 Financial Statements appearing on pages F-76 and F-3 of this Base Prospectus, respectively. The 2020 Nine Month Interim Period Financial Statements have been prepared in accordance with IAS 34.

Saudi Aramco's financial information as at and for years ended 31 December 2018 and 2019 included in this Base Prospectus has been derived without material adjustment from the 2018 Financial Statements and 2019 Financial Statements, respectively. The financial information as at and for the year ended 31 December 2017, has been derived without material adjustment from the comparative column of the 2018 Financial Statements. The financial information for the nine months ended 30 September 2019 has been derived without material adjustment from the comparative column of the 2020 Nine Month Interim Period Financial Statements and the financial information as at and for the nine months ended 30 September 2020 included in this Base Prospectus has been derived without material adjustment from the 2020 Nine Month Interim Period Financial Statements. In the preparation of its 2019 Financial Statements, Saudi Aramco reclassified certain 2018 transactions that appear in the 2018 comparative column included in the 2019 Financial Statements. See page F-29. The financial information as at and for the year ended 31 December 2018 has been extracted from the 2018 Financial Statements, rather than the 2018 comparative column of the 2019 financial statements. SABIC's financial results have been consolidated into Saudi Aramco's since 16 June 2020, the effective date of its acquisition of a 70% equity interest in SABIC.

The 2019 SABIC Financial Statements have been prepared in accordance with IFRS and have been audited by SABIC's independent auditor, Ernst & Young & Co. (Certified Public Accountants), as stated in its audit report appearing on page F-182 in this Base Prospectus. The 2020 SABIC Nine Month Interim Financial Statements have been prepared in accordance with IAS 34. The financial information included in this Base Prospectus relating to SABIC has been derived without material adjustment from the SABIC Financial Statements. The 2020 SABIC Nine Month Interim Financial Statements reflect changes SABIC made to its accounting treatment of certain non-wholly owned subsidiaries and joint arrangements after Saudi Aramco's acquisition of a 70% equity interest in SABIC. These changes were made to align SABIC's significant accounting estimates, assumptions and judgments with those of Saudi Aramco and have been applied retrospectively. Accordingly, SABIC restated its balance sheet as at 31 December 2019 and its results of operations for the three and nine months ended 30 September 2019 to reflect these changes in accounting treatment. SABIC's balance sheet information as at 31 December 2019 has been extracted from the 2020 SABIC Nine Month Interim Financial Statements. The financial information for the year ended 31 December 2019 included in this Base Prospectus relating to SABIC does not reflect the impact of these restatements and may materially differ upon restatement. For further information on these restatements, see page F-296.

IFRS differs in certain material respects from U.S. generally accepted accounting principles and, as such, Saudi Aramco'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 jurisdiction of such prospective investor 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 Saudi Aramco's or SABIC's, as the case may be, financial position, results of operations and cash flow, as well as on the comparability of the prior periods. In particular, the IASB introduced a new lease standard, IFRS 16—Leases (which superseded IAS 17—Leases, IFRIC 4, SIC 15 and SIC 27), which Saudi Aramco adopted with effect from 1 January 2019. For further information on the anticipated impact of IFRS 16 on Saudi Aramco's financial statements, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—New or Amended Standards*" and Note 2(c) to the 2019 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***

In recent years, the Government has adopted a number of changes to the fiscal regime under which Saudi Aramco operates. These changes materially impact Saudi Aramco's results of operations and make Saudi Aramco's consolidated financial statements for certain periods presented less comparable. For a more detailed discussion of the fiscal regime changes and their effect on Saudi Aramco's consolidated financial statements, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—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 Saudi Aramco 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 Saudi Aramco has the right to operate and develop through the Concession and exclude reserves other entities have the right to develop, including AGOC, which operates in the offshore 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, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts and the European Association of Geoscientists and Engineers. Reserve estimation is an inherently complex process that principally relies on a combination of knowledge, experience and engineering judgment. The accuracy of any reserve estimate is a function of a number of variable factors and assumptions, many of which are beyond Saudi Aramco'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 Saudi Aramco's ability to estimate actual reserves or on comparisons of similar reports concerning other companies. In addition, except to the extent that Saudi Aramco conducts successful exploration and development activities, or both, Saudi Aramco's reserves will decline as reserves are produced. For more information, see "*Business—Operating Segments—Upstream—Reserves*".

Following a several year pause, in February 2020, AGOC resumed operations in the offshore partitioned territory between the Kingdom and the State of Kuwait. Effective February 2020, Saudi Aramco crude oil production includes AGOC's share of production in the offshore partitioned territory between the Kingdom and the State of Kuwait. Pursuant to an agreement between the Kingdom and the Kingdom of Bahrain regarding the Abu Sa'fah field, the Kingdom of Bahrain is entitled to 50% of the net income derived from crude oil produced from Abu

Sa'fah. In 2017, 2018 and 2019, 50% of the volume of crude oil produced from Abu Sa'fah was delivered to the Kingdom of Bahrain in satisfaction of this obligation. The amount of crude oil produced from Abu Sa'fah and delivered to the Kingdom of Bahrain was 153 mbpd, 152 mbpd and 152 mbpd in 2017, 2018 and 2019, respectively. Saudi Aramco's MSC includes 100% of the crude oil volumes produced from Abu Sa'fah, but its production volumes do not include the crude oil produced from Abu Sa'fah and delivered to the Kingdom of Bahrain.

**Industry and Other Information**

This Base Prospectus includes information regarding the industry and the geographies in which Saudi Aramco operates and competes. Saudi Aramco has commissioned the Industry Consultant to prepare information for Saudi Aramco. The statistical, graphical and other information contained herein under "*Industry Overview*" has been drawn from the Industry Consultant's databases and other sources. Maps contained in this Base Prospectus are for reference only and do not necessarily reflect international borders or other locations accurately.

Certain economic and industry data and forecasts used in this 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 Saudi Aramco 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. Saudi Aramco 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. *See* "*Forward-Looking Statements*".

Elsewhere in this Base Prospectus, statements regarding the oil and gas industry and Saudi Aramco's position in the industry are not based on published statistical data or information obtained from independent third parties, but are based solely on Saudi Aramco'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 Arabian Riyal, the legal currency of the Kingdom; and
- "**U.S. Dollar**", "**$**" and "**U.S.$**" are to the United States Dollar, the legal currency of the United States.

For all periods presented in this Base Prospectus, the Saudi Riyal has been pegged to the U.S. Dollar at a fixed exchange rate of SAR 3.75 = U.S.$1.00. In cases where amounts included in this 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**

This Base Prospectus includes certain non-IFRS financial measures which Saudi Aramco uses in the analysis of its business and financial position, each of which constitutes 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 method of calculation and the rationale for the inclusion of such metrics.

| Metric | Method of calculation | Rationale |
|---|---|---|
| Earnings Before Interest, Taxes and Zakat (“**EBIT**”) | Calculated as net income plus finance costs and income taxes and zakat, less finance income. | 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 (“**ROACE**”) | 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 Saudi Aramco’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 Saudi Aramco’s historic trends of operation and financial position. Saudi Aramco uses APMs as supplementary information to its IFRS based operating performance and financial position. The APMs are not measurements of Saudi Aramco’s operating performance or liquidity under IFRS and should not be used instead of, or considered as alternatives to, any measures of performance or liquidity under IFRS. The 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 Saudi Aramco’s industry, may calculate similarly titled APMs differently from Saudi Aramco. Because companies do not calculate these APMs in the same manner, Saudi Aramco’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 in Saudi Aramco’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 Saudi Aramco's financial position, results of operations and business certain of Saudi Aramco's plans, intentions, expectations, assumptions, goals and beliefs 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 Saudi Aramco's actual financial position, results of operation and business and the development of the industries in which it operates may differ significantly from those made in or suggested by these forward-looking statements. In addition, even if Saudi Aramco's financial position, results of operations and business and the development of the industries in which it operates are consistent with these forward-looking statements, those results or developments may not be indicative of results or developments in subsequent periods.

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

- supply, demand and price fluctuations with respect to oil and gas, and Saudi Aramco's other products;
- global economic market conditions;
- natural disasters and public health pandemics or epidemics (such as COVID-19);
- competition in the industries in which Saudi Aramco operates;
- conditions affecting the transportation of products;
- operational risk and hazards common in the oil and gas, refining and petrochemicals industries;
- the cyclical nature of the oil and gas, refining and petrochemicals industries;
- weather conditions;
- political and social instability and unrest and actual or potential armed conflicts in the MENA region and other areas;
- managing Saudi Aramco's growth;
- risks in connection with projects under development and recent and future acquisitions and joint ventures, including with respect to SABIC;
- managing Saudi Aramco's subsidiaries, joint operations, joint ventures, associates and entities in which it holds a minority interest;
- Saudi Aramco'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 Saudi Aramco operates; and
- international trade litigation, disputes or agreements.

The sections of this Base Prospectus entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Position and Results of Operations*" contain a more complete discussion of the factors that could affect Saudi Aramco'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 8 of the Prospectus Regulation and for the purpose of giving information with regard to Saudi Aramco and the Notes, which is necessary to enable investors to make an informed assessment of Saudi Aramco's assets and liabilities, financial position and profit and losses and prospects.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer, the information contained in this Base Prospectus is in accordance with the facts and the Base Prospectus makes no omission likely to affect its import. 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 FCA in accordance with Article 23 of the Prospectus Regulation. 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 re-examining the merits of the claim, including any judgment predicated upon United States federal securities laws or the securities laws of any state or territory within the United States. In addition, the courts of the Kingdom may (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 Related 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, Saudi Aramco's business, financial position, 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 Saudi Aramco or that Saudi Aramco currently deems immaterial may also materially and adversely affect Saudi Aramco and the trading price of the Notes.*

## Risks Related to Macro-Economic Environment and External Factors

***Saudi Aramco's results of operations and cash flow are significantly impacted by international crude oil supply and demand and the price at which it sells crude oil.***

Sales of crude oil are the largest component of Saudi Aramco's consolidated revenue and other income related to sales, accounting for 56.5%, 56.4% and 57.3% for the years ended 31 December 2017, 2018 and 2019, respectively, and 50.3% for the nine months ended 30 September 2020. Accordingly, Saudi Aramco's results of operations and cash flow are significantly impacted by the price at which it sells crude oil.

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

- markets' expectations with respect to future supply of petroleum and petroleum products, demand and price changes, including future demand for petroleum products in Asia;
- global economic and political conditions and geopolitical events, including any that impact international trade (including trade routes);
- decisions regarding production levels by the Kingdom or other producing states (the Kingdom is a member country of OPEC) (see "*Business—Relationship with the Kingdom*");
- the impact of natural disasters and public health pandemics or epidemics (such as the novel strain of coronavirus causing Coronavirus Disease 2019 ("**COVID-19**")) on supply and demand for crude oil, general economic conditions and the ability to deliver crude oil;
- 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 "*—Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause Saudi Aramco 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 "*—Legal and Regulatory Risks—Saudi Aramco's operations are subject to environmental protection, health and safety laws and regulations and increased concerns regarding the safe use of chemicals and plastics and their potential impact on the environment have resulted in more restrictive regulations and could lead to new regulations*");
- prices of alternative energies, including renewable energy;
- the electrification of transportation, technological developments in the cost or endurance of fuel cells for electric vehicles and changes in transportation-mode preferences, including ride-sharing;
- weather conditions affecting supply and demand;

- fluctuations in the value of the U.S. Dollar, the currency in which crude oil is priced globally; and
- crude oil trading activities.

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

International crude oil prices have fluctuated significantly in the past and may remain volatile. Between January 2016 and February 2020, Brent prices generally fluctuated between $40.0 and $65.0 per barrel. However, most recently, Brent prices fell below $23.0 per barrel in mid-March 2020 and generally fluctuated between $30.0 and $45.0 per barrel through 30 September 2020, in response to the COVID-19 pandemic and its impact on worldwide demand for oil and economic activity as well as other supply and demand factors. Because the consequences and duration of these events is uncertain, Saudi Aramco is not able to predict the full extent and impact lower oil prices will have on Saudi Aramco's results of operations and cash flow.

***The COVID-19 pandemic and its impact on business and economic conditions could negatively affect Saudi Aramco's business, financial position, cash flow, results of operations and price of its securities.***

The COVID-19 pandemic and measures taken to combat it are having a widespread impact on business and economic conditions, including on the demand for crude oil, natural gas, refined products and petrochemicals. Public health authorities and governments at local, national and international levels have announced various measures to respond to the pandemic, including restrictions on travel, voluntary or mandatory quarantines, workforce reductions of personnel who are deemed to be non-essential and the full closure of business activities deemed to be non-essential. These measures have severely impacted economic activity and led to lower demand for crude oil, natural gas, refined products and petrochemicals. Moreover, the COVID-19 pandemic has resulted in volatility in global capital markets and investor sentiment, which may affect the availability, amount and type of financing available to Saudi Aramco in the future.

As a result of the COVID-19 pandemic and other factors impacting oil demand, Saudi Aramco has revised its expected capital expenditures for the year ending 31 December 2020 from between $35.0 billion and $40.0 billion to between $25.0 billion and $30.0 billion, which includes capital expenditures expected to be incurred by SABIC. For a more detailed discussion on Saudi Aramco's historical and expected capital expenditures, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Liquidity and Capital Resources—Cash Used in Investing Activities—Capital Expenditures*".

In addition to its impact on economic activity, COVID-19 could have a direct impact on Saudi Aramco's operations. In the Kingdom, public health authorities have taken various measures to combat the spread of COVID-19. For example in March 2020, a temporary nationwide curfew was introduced, which required Saudi Aramco to adjust working hours for some personnel. In addition, the health of some of Saudi Aramco's employees has been impacted and some of its personnel have been quarantined. If public health authorities determine that persons suspected of or confirmed to have COVID-19 have spent time at any of Saudi Aramco's facilities, Saudi Aramco may be required to pause certain operations or close certain facilities for a considerable time. If a significant percentage of Saudi Aramco's workforce is unable to work or if Saudi Aramco is required to close facilities because of illness or government restrictions in connection with the COVID-19 pandemic, Saudi Aramco's operations may be negatively impacted.

Saudi Aramco is not able to predict how long the COVID-19 pandemic will persist or how long the measures that have been introduced to respond to it will be in place. Saudi Aramco also cannot predict how long the effects of COVID-19 and the efforts to contain it will continue to impact its business after the pandemic is under control or if additional, more restrictive measures to combat the pandemic will be implemented. These impacts could result in a worsening of the effects of the pandemic on Saudi Aramco's business, cash flows, results of operations and price of its securities. The extent to which COVID-19 could impact Saudi Aramco's business depends on future developments that are highly uncertain and are outside of Saudi Aramco's control, including new information which may quickly emerge concerning the severity of the virus, the scope of the pandemic and actions to contain the virus or treat its impact and the efficacy of such actions, among others.

***Saudi Aramco 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. Saudi Aramco'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 affecting competition are the price, quantity and quality of crude oil produced. Increased competitive pressures could have a material adverse impact on prices at which Saudi Aramco can sell crude oil and its regional and global market share.

In addition, outside the Kingdom, Saudi Aramco's refineries in its downstream segment are subject to competition in the geographies to which they sell refined products or petrochemicals. Competitors include, but are not limited to, refineries located in, or in close proximity to, the relevant market, and in the case of refineries that are net importers, from other international producers. Operating efficiencies and production costs are key factors affecting competition for refined products and chemicals. Accordingly, if the operating efficiencies and production costs of Saudi Aramco's refineries are not sufficiently competitive in the geographies they serve, Saudi Aramco's business, financial position and results of operations could be materially and adversely impacted.

***Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause Saudi Aramco 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 Saudi Aramco. In some of the areas in which Saudi Aramco operates such as the Netherlands, GHG emissions are regulated by the European Union Emissions Trading Scheme. In the future, areas in which Saudi Aramco operates that are not currently subject to GHG regulation may become regulated and existing GHG regulations may become more stringent. See "*Business—Health, Safety and Environment*".

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

***Terrorism and armed conflict may materially and adversely affect Saudi Aramco and the market price of the Notes.***

Saudi Aramco's facilities have been targeted by terrorist and other attacks. Most recently, in September 2019, the Abqaiq facility and the Khurais processing facility were subject to attack by unmanned aerial vehicles and missiles. Abqaiq is Saudi Aramco's largest oil processing facility. The Khurais field is one of Saudi Aramco's principal oil fields. These attacks resulted in the temporary suspension of processing at Abqaiq and Khurais. As a result, overall crude oil production and associated gas production was reduced and Saudi Aramco took a number of actions to minimise the impact of lower Arabian Light and Arabian Extra Light production by tapping into Saudi Aramco's inventories located outside of the Kingdom and swapping grades of deliveries to Arabian Medium and Arabian Heavy.

In addition, in May 2019 and in August 2019, the East-West pipeline and the Shaybah field, respectively, were targeted by unmanned aerial vehicle attacks. These attacks resulted in fires and damage to the processing and cogeneration infrastructure at the Shaybah NGL facility. Furthermore, since 2017, areas of the Kingdom have been subject to ballistic missile and other aerial attacks from Yemen, including areas of the Kingdom where Saudi Aramco has facilities or operations. Any additional terrorist or other attacks could have a material adverse effect on Saudi Aramco's business, financial position and results of operations, could cause Saudi Aramco to expend significant funds and could impact the market price of the Notes.

**Risks related to Saudi Aramco, its Operations and Industry**

***Saudi Aramco 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 its results of operations.***

Saudi Aramco exports a substantial portion of its crude oil and refined products to customers in Asia. In 2017, 2018 and 2019, customers in Asia, including Saudi Aramco's affiliated refineries located in Asia, purchased 71%, 71% and 77%, respectively, of its crude exports and 50%, 51% and 50%, respectively, of its total crude production. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Upstream Liquids Sales*". In addition, Saudi Aramco expects to export additional crude to Asia as new downstream assets in Asia commence operations. See "*Business—Overview—Downstream*".

Saudi Aramco 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 Saudi Aramco's joint ventures and international operations in Asia are generally sold locally and exported to other Asian countries. Since early 2020, economic conditions in Asia have been significantly impacted by the outbreak of COVID-19. If there is a prolonged slowdown in economic growth, an economic recession or other adverse economic or political development in Asia, Saudi Aramco may experience a material reduction in demand for its products by its customers located in the region. Moreover, any such development in other parts of the world (including political and social instability or armed conflict in the MENA region) may result in other producers supplying surplus capacity to Asia, thereby increasing competition for customers in Asia and affecting the prices at which Saudi Aramco sells its products to customers there. A significant decrease in demand for Saudi Aramco's products in Asia could have a material adverse effect on its business, financial position and results of operations.

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

Saudi Aramco 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, Saudi Aramco's properties and facilities, death or injury to people and harm to the environment, which could have a significant impact on its operations or result in significant liabilities and remediation costs. In addition, Saudi Aramco is not insured against all risks and insurance in connection with certain risks and hazards may not be available. See "*—Saudi Aramco could be subject to losses from risks related to insufficient insurance*". To the extent a subcontractor was responsible for the damage, Saudi Aramco's recourse to the relevant subcontractor may be limited by contract or the financial viability of such subcontractor. Such occurrences could also interrupt Saudi Aramco's operations, delay Saudi Aramco projects or damage its reputation, which could have a material adverse effect on its business.

Furthermore, the majority of Saudi Aramco's assets are located in the Kingdom and it relies heavily on a cross country pipeline system and terminal facilities to transport crude oil and products through the Kingdom. Saudi Aramco also depends on critical assets to process its crude oil, such as the Abqaiq facility, which is its largest oil processing facility and processes a significant amount of Saudi Aramco's daily produced crude oil. The East-West pipeline, the Shaybah NGL facility, the Abqaiq facility and the Khurais processing facility have been subject to attacks within the last few years. If Saudi Aramco's critical transport systems or processing facilities were subject to a significant disruption, it could have a material adverse effect on Saudi Aramco's business, financial position and results of operations. See "*—Risks Related to Macro-Economic Environment and External Factors—Terrorism and armed conflict may materially and adversely affect Saudi Aramco and the market price of the Notes*".

***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 Saudi Aramco's proved reserves.***

Saudi Aramco's reserve estimates conform to the SPE-PRMS definitions and guidelines, which are internationally recognised industry standards. Saudi Aramco's and D&M's estimates of the quantity of Saudi Aramco'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 Saudi Aramco 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 Saudi Aramco to estimate proved reserves, or those utilised by D&M for the purposes of preparing its certification letter, will prove to be accurate. Any significant deviation from these interpretations, assumptions or judgments could materially affect the estimated quantity or value of Saudi Aramco'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 Saudi Aramco's estimates of Saudi Aramco's proved reserves, impairment of Saudi Aramco's assets or changes to Saudi Aramco's capital expenditures and production plans. Moreover, proved reserves estimates are subject to change due to changes in published rules or changes in guidelines. Any material reduction in the quantity or value of Saudi Aramco's proved reserves could adversely affect Saudi Aramco's business.

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

Saudi Aramco retained independent petroleum consultants, D&M, to independently evaluate, as at 31 December 2019, reservoirs Saudi Aramco believes accounted for approximately 85% of its proved oil reserves to which it has rights under the Concession and remain to be produced after 31 December 2019 but before 31 December 2077 (the end of the initial 40-year term of the Concession plus the first 20-year extension). Saudi Aramco chose this scope because of the overall scale of the Kingdom's reserves and the concentration of deposits in the major reservoirs that were assessed. Further independent assessment of the Kingdom's smaller reservoirs would have taken several years to complete. D&M's reserves estimation of 214.2 billion barrels of oil equivalent reserves for the reservoirs it evaluated was within 1% of Saudi Aramco's internal estimation for the same reservoirs for the same Concession time period.

There is no independent third-party certification letter with respect to the balance of the Kingdom's proved oil equivalent reserves or as at a more recent date than 31 December 2019. Any material deviation in the quantity of proved reserves could have a material adverse effect on Saudi Aramco's financial position.

***Saudi Aramco could be subject to losses from risks related to insufficient insurance.***

Saudi Aramco insures against risk primarily by self-insuring through its captive insurance subsidiary, Stellar, which provides insurance exclusively to Saudi Aramco. Saudi Aramco also obtains insurance in certain areas from third-party providers in excess of the coverage provided through Stellar. For more information, see "*Business—Insurance*".

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

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

Saudi Aramco's ability to achieve its strategic growth objectives depends, in part, on the successful, timely and cost-effective delivery of capital projects, which are carried out by Saudi Aramco or by it along with joint venture or affiliate partners. Saudi Aramco faces numerous challenges in developing such projects, including:

- fluctuations in the market prices for hydrocarbons, which may impact its ability to finance its projects from its cash flow from operating activities or make projects less economically feasible or rendered uneconomic;
- making economic estimates or assumptions based on data or conditions, including crude oil and gas price assumptions, which may change;
- constraints on the availability and cost of skilled labour, contractors, materials, equipment and facilities;
- its ability to obtain funding necessary for the implementation of the relevant project on terms acceptable to it, or at all;
- difficulties in obtaining necessary permits, complying with applicable regulations and changes to applicable law or regulations;
- difficulties coordinating multiple contractors and sub-contractors involved in complex projects; and
- undertaking projects or ventures in new lines of business in which Saudi Aramco 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. If projects are delayed, cost more than expected or do not generate the expected return, Saudi Aramco's operations and expected levels of production could be impacted. These occurrences could result in Saudi Aramco reviewing and recognising impairments on its projects, assuming liabilities of joint venture or affiliate partners or other consequences, any of which could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

In addition, many of Saudi Aramco's projects require significant capital expenditures. For a more detailed discussion on Saudi Aramco's capital expenditures, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Liquidity and Capital Resources—Cash Used in Investing Activities—Capital Expenditures*" and "*—Risks Related to Macro-Economic Environment and External Factors—The COVID-19 pandemic and its impact on business and economic conditions could negatively affect Saudi Aramco's business, financial position, cash flow, results of operations and price of its securities*".

If cash flow from operating activities and funds from external financial resources are not sufficient to cover Saudi Aramco's capital expenditure requirements, Saudi Aramco 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 Saudi Aramco's capital expenditure plans could, in turn, have a material adverse effect on Saudi Aramco's growth objectives and its business, financial position and results of operations.

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

In recent years, the Government has adopted a number of changes to the fiscal regime under which Saudi Aramco operates. These changes have a material impact on Saudi Aramco's results of operations and make its consolidated financial statements for certain periods less comparable, particularly with respect to revenue and other income related to sales, production royalties and excise and other taxes and income tax. For a more detailed discussion of the fiscal regime changes and their effect on Saudi Aramco's consolidated financial statements, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

***Saudi Aramco may not realise some or all of the expected benefits of recent or future acquisitions, including the acquisition of a 70% equity interest in SABIC.***

Saudi Aramco has engaged in and may continue to engage in acquisitions of businesses, technologies, services, products and other assets from time to time. Any such acquisition entails various risks, including that Saudi Aramco 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. Saudi Aramco 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 Saudi Aramco's ongoing business, distract its management and employees and increase its expenses which could, in turn, have a material adverse effect on its business, financial position and results of operations.

On 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for total consideration of $69.1 billion. For the acquisition to be successful for Saudi Aramco, Saudi Aramco will need to manage its ownership stake in SABIC in a manner which supports the optimisation of SABIC's performance. The realisation of such benefits may be affected by a number of factors, many of which are beyond Saudi Aramco's control. Failure to realise some or all of the anticipated benefits of the acquisition may impact Saudi Aramco's financial performance and prospects, including the growth of its downstream business. For further information on Saudi Aramco's acquisition of the equity interest in SABIC, see "*Business—Operating Segments—Downstream—Acquisition of 70% Equity Interest in SABIC*".

***Saudi Aramco is exposed to risks related to operating in several countries.***

Approximately 40% of the total volume of Saudi Aramco'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 Saudi Aramco's income;
- the imposition of new, or changes to existing, transfer pricing regulations or the imposition of new restrictions on foreign trade, investment or travel;
- adverse changes in economic and trade sanctions, import or 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 Saudi Aramco'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 Saudi Aramco's business, financial position and results of operations.

***Saudi Aramco is dependent on Senior Management and key personnel.***

Saudi Aramco 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. Saudi Aramco's Senior Management and key personnel may voluntarily terminate their employment with Saudi Aramco or leave their positions due to reasons beyond Saudi Aramco's control. If Saudi Aramco experiences a large number of departures of its oil and gas experts in a relatively short period of time, attracting and retaining a sufficient number of replacement personnel may be challenging. If Saudi Aramco is unable to hire and retain Senior Management and key personnel with requisite skills and expertise, it could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

***Saudi Aramco's management team has limited experience managing a public company.***

Saudi Aramco's management team has limited experience managing a public company and complying with the increasingly complex laws, regulations and other obligations pertaining to public companies. Following Saudi Aramco's initial public offering on 11 December 2019, Saudi Aramco has been subject to significant regulatory oversight and reporting obligations and the increased scrutiny of securities analysts and investors. These new obligations and constituents may require significant attention from Saudi Aramco and its Senior Management. In addition, failure to comply in a timely manner with certain regulations and disclosure requirements could expose Saudi Aramco to regulatory sanctions and fines. Any of these impacts could have a material adverse effect on Saudi Aramco's business, financial position or results of operations.

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

Saudi Aramco relies on the security of critical information and operational technology systems. 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. Saudi Aramco's systems are a high-profile target for sophisticated cyberattacks by nation states, criminal hackers and competitors, and Saudi Aramco routinely fends off malicious attempts to gain unauthorised systems access. However, there is a risk that determined attackers with access to the necessary resources could successfully penetrate Saudi Aramco systems. Attempts to gain unauthorised access to Saudi Aramco networks have been successful in the past, including a 2012 cyberattack in which Saudi Aramco resorted to manual procedures for certain non-operational related matters while the breach was contained. To date, none of these attempts have been material to Saudi Aramco's financial performance or reputation. Nonetheless, the nature and breadth of any potential future cyberattack remain unknown and remote work arrangements in response to the outbreak of COVID-19 may increase the risk of cybersecurity incidents, data breaches or cyberattacks. Such incidents could result in significant costs, including investigation and remediation expenses, regulatory scrutiny, legal liability and the loss of personal or sensitive business or third-party information, and could have a material adverse effect on Saudi Aramco's operations and reputation. For further information on Saudi Aramco's cybersecurity, see "*Business—IT and Cybersecurity*".

**Legal and Regulatory Risks**

***Saudi Aramco is and has been subject to litigation, including with respect to international trade litigation, disputes or agreements, and may be subject to additional litigation in the future.***

Saudi Aramco is and has been subject to significant litigation, primarily in the United States and the Kingdom. Some of the most significant U.S. litigation involved allegations of violations of antitrust laws arising, in part, from the Kingdom's membership and participation in OPEC. Such antitrust litigation sought extensive relief, including treble damages, divestiture of assets in the United States and disgorgement of profits. If granted, this relief could have had a material adverse impact on Saudi Aramco. 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 Saudi Aramco will prevail in its assertion of these defences in the future and any adverse judgment or settlement could have an adverse effect on Saudi Aramco's business, financial position and results of operations.

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

From time to time, Saudi Aramco has been subject to, and remains subject to, claims for title to land. For example, the case *Al-Qarqani et al. v. Arabian American Oil Company (No. 4:18-cv-1807)* ("***Al-Qarqani***") is pending before the U.S. District Court for the Southern District of Texas (the "**Texas Court**"). In *Al-Qarqani*, the petitioners seek to enforce an $18.0 billion arbitral award ("**Award**") granted by an arbitral tribunal under the auspices of the International Arbitration Centre (the "**IAC**") in Egypt. The petitioners are currently seeking to enforce the alleged Award in the United States against the Issuer (in Houston) and Chevron (in California). The California District Court (the "**California Court**") held there was not an agreement to arbitrate. The holding of the California Court is on appeal to the Ninth Circuit Court of Appeals. The IAC arbitrators have been prosecuted and convicted in Egypt of issuing a fraudulent Award. The Issuer has moved to dismiss the petitioners' enforcement action under the FSIA and New York Convention given the absence of any agreement to arbitrate with the petitioners and the enforcement of the alleged Award or, in the alternative, transfer *Al-Qarqani* to the U.S. District Court for the District of Columbia, and is currently awaiting a decision from the Texas Court. The Texas Court dismissed petitioners' previous attempt to enforce the Award against Aramco Services Company due to the lack of an agreement to arbitrate. Even if the Texas Court grants such dismissal, the petitioners may appeal the Texas Court's decision to the Fifth Circuit Court of Appeals. In the unlikely event the Issuer is unsuccessful in defending against this claim, the petitioners may attempt to force it to pay the Award granted by the Egyptian arbitral tribunal, which could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

In addition, increasing attention on climate change risks may result in an increased possibility of litigation against Saudi Aramco and its affiliated companies. Claims relating to climate change matters have been filed against companies in the oil and gas industry by private parties, shareholders of such companies, public interest organisations, state attorneys general, cities and other localities, especially in the United States, including claims that the extraction and development of fossil fuels has increased climate change. Some of these claims demand that the defendants pay financial amounts as compensation for alleged past and future damages resulting from climate change. On 2 July 2018, Motiva, Saudi Aramco's U.S. refinery, was named as a defendant in a climate-change case brought by the Rhode Island Attorney General against 21 oil and gas companies ("***Rhode Island***"). The defendants initially attempted to remove the case to federal court, but the case was remanded back to Rhode Island state court. The federal district court's remand order was affirmed by the Court of Appeals for the First Circuit on 29 October 2020. A very similar decision was reached earlier by the Fourth Circuit in *Mayor and City Counsel of Baltimore v. BP p.l.c.* ("***City of Baltimore***"), another climate change case against oil and gas companies. On 2 October 2020, the U.S. Supreme Court granted certiorari to review the decision of the Fourth Circuit in *City of Baltimore*. Due to the similarity of the cases, whether the First Circuit's decision in the *Rhode Island* case ultimately controls could depend to a large extent on what the Supreme Court decides in the *City of Baltimore* case. The Supreme Court is expected to hear oral argument in that case in early 2021. While Shell agreed to defend and indemnify Motiva, in the event Motiva is not dismissed, Shell's continued duty to defend and indemnify Motiva may be reevaluated. Claims such as these could grow in number and Saudi Aramco and its affiliated companies could be the subject of similar claims in the United States or elsewhere in the future.

Further, Saudi Aramco's investors could assert claims against it and its Directors and Senior Executives alleging breaches of applicable laws and regulations, or other legal theories.

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

Moreover, exports of crude oil, refined products and petrochemicals by Saudi Aramco or its affiliates to foreign countries may be affected by litigation, regulatory actions, investigations, 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, and new or increased tariffs, quotas or embargos. The possibility and effect of any such measures will depend on the laws governing the foreign country to which the applicable products are being exported and applicable international trade agreements. Foreign countries may take such measures for political or other reasons, including reasons unrelated to Saudi Aramco actions or operations. Since the majority of Saudi Aramco's products are exported, any such measures may have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

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

***Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco's business, financial position and results of operations. In addition, although the Concession provides for an initial period of 40 years, which will be extended by the Government for 20 years provided Saudi Aramco satisfies certain conditions commensurate with current operating practices (and may be amended and extended for an additional 40 years thereafter subject to Saudi Aramco 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 Saudi Aramco's rights in respect of the Concession, which would have a significant effect on Saudi Aramco's business, financial position and results of operations. Furthermore, if the Kingdom were to take additional actions under its regulatory powers or change laws, regulations, policies or practices relating to the oil and gas industry, Saudi Aramco's business, financial position and results of operations could be materially and adversely affected.

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

Saudi Aramco 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, as well as anti-bribery and anti-corruption laws, imposed by the United States, the European Union and other sanctioning bodies. Laws and regulations governing sanctions, trade restrictions, bribery and corruption are complex and are subject to change.

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

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

The rights granted to Saudi Aramco under the Concession represent Saudi Aramco's licences, permits, and approvals necessary to conduct business in the Kingdom with respect to Hydrocarbons operations and related activities. However, Saudi Aramco is required to obtain and renew any licence, permit, or approval that is required under the Hydrocarbons Law, GSPR or with respect to certain other activities unrelated to Hydrocarbons operations. See "*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 Saudi Aramco, or at all. Any unforeseen failure to renew, maintain or obtain the required permits and approvals, or the revocation or termination of existing licences, permits and approvals, may interrupt Saudi Aramco's operations and could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

***Saudi Aramco's operations are subject to environmental protection, health and safety laws and regulations and increased concerns regarding the safe use of chemicals and plastics and their potential impact on the environment have resulted in more restrictive regulations and could lead to new regulations.***

Saudi Aramco's operations are subject to 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 Saudi Aramco's employees and the communities in which it operates. Compliance with these obligations can result in significant expenditures. If Saudi Aramco fails to comply with applicable laws and regulations, it could be subject to fines or the partial or total shutdown of related operations. Saudi Aramco has, from time to time, shutdown certain facilities in order to ensure compliance with applicable laws and regulations. In addition, a stricter interpretation of existing laws and regulations, any changes in these laws and regulations or the enactment of new laws and regulations may impose new obligations on Saudi Aramco or otherwise adversely affect Saudi Aramco's business, financial position and results of operations. See "*Business—Health, Safety and Environment*".

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

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

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

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

Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of selling these products in the Kingdom at regulated prices. Under this mechanism, Saudi Aramco receives compensation for the difference between regulated prices and equalisation 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 Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

Furthermore, in the Kingdom, natural gas prices are regulated by the Government and the price that domestic customers pay is traditionally set by the Council of Ministers. Effective 17 September 2019, the Government implemented an equalisation mechanism to compensate Saudi Aramco for the revenue it directly forgoes as a result of selling Regulated Gas Products in the Kingdom at Domestic Prices, in the event that the Council of Ministers and the Ministry of Energy do not adjust the Domestic Prices to meet the pricing of the gas projects in order to ensure Saudi Aramco receives a commercial rate of return on each project. Under this mechanism, Saudi Aramco receives compensation for the difference between Domestic Prices and Blended Prices in respect of such sales. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Gas Pricing*" and "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

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

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

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

**Risks Related to the Kingdom**

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

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

In order to facilitate rapid changes in production volumes, the Government requires Saudi Aramco to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law and has the exclusive authority to set MSC. MSC refers to the average maximum number of barrels per day of crude oil that can be produced for one year during any future planning period, after taking into account all planned capital expenditures and maintenance, repair and operating costs, and after being given three months to make operational adjustments. Saudi Aramco incurs substantial costs to maintain MSC and has historically utilised a significant amount of this spare capacity. However, there can be no assurance that it will utilise spare capacity in the future. In addition, the Government has decided in the past and may in the future decide to increase target MSC. MSC was 12.0 million barrels of crude oil per day from 1 January 2019 to 30 September 2020. However, on 11 March 2020, the Government (acting through the Ministry of Energy) directed Saudi Aramco to increase MSC from 12.0 to 13.0 million barrels of crude oil per day. Saudi Aramco is currently evaluating the timing of, and the costs associated with, implementing the Government's directive to increase MSC.

The Government's decisions regarding crude oil production and spare capacity, and Saudi Aramco's costs of complying with such decisions, may not maximise returns for Saudi Aramco. For example, Saudi Aramco 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 Saudi Aramco to make significant capital expenditures to build new infrastructure and facilities. Any of these actions could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

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

The oil sector accounted for 42.7%, 43.0% and 41.3% of the Kingdom's real GDP in the years ended 31 December 2017, 2018 and 2019, respectively. Furthermore, the oil sector accounted for 63.0%, 67.4% and 65.6% of the Government's total revenues in the years ended 31 December 2017, 2018 and 2019, respectively. The Government is expected to continue to rely on royalties, taxes, dividends from Saudi Aramco 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 Saudi Aramco's results of operations could materially affect the macroeconomic indicators of the Kingdom, including GDP, balance of payments and foreign trade and the amount of cash available to the Government.

Changes made to the Kingdom's tax regime for hydrocarbon producers and the royalty rate to which Saudi Aramco is subject seek to align the fiscal regime to which Saudi Aramco is subject with tax and royalty rates that are customary in other hydrocarbon producing jurisdictions. In addition, pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of selling crude oil and certain refined products in the Kingdom at regulated prices, which further impacts the Kingdom's cash flow. Effective 1 January 2020, the marginal royalty rates applicable to crude oil and condensate production was modified, the tax rate applicable to Saudi Aramco's downstream activities was reduced and the Government expanded the equalisation mechanism to include LPGs and certain other products. Moreover, the Government guarantees amounts due to Saudi Aramco 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 Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*". In 2017, 2018 and 2019, the Government issued $21.5 billion, $13.0 billion and $13.0 billion, respectively, in the international debt capital markets, both in conventional and sukuk formats to fund its budget. For the nine months ended 30 September 2020, the Government issued $12.0 billion in the international debt capital markets. 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 Saudi Aramco, are subject. Any such change could have a material adverse effect on Saudi Aramco's business, financial position 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 Saudi Aramco's results of operations and financial position.***

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

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

Moreover, the majority of Saudi Aramco'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 Saudi Aramco, which could in turn have a material adverse effect on Saudi Aramco's business, financial position and results of operations or investments that Saudi Aramco has made or may make in the future.

Furthermore, any of the events described above may contribute to instability in the MENA region and may have a material adverse effect on investors' willingness to invest in the Kingdom or companies that are based in the Kingdom, which may in turn adversely affect the market value of the Notes.

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

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

In addition, Saudi Aramco pays dividends to the Government, in its capacity as a shareholder of Saudi Aramco, 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, Saudi Aramco may be required to expend additional cash to fund any dividends. Such changes could have a material adverse effect on Saudi Aramco's financial position.

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

The Government has directed, and may in the future direct, Saudi Aramco to undertake projects or provide assistance for initiatives outside Saudi Aramco's core business in furtherance of the Government's macroeconomic, social or other objectives, leveraging Saudi Aramco's know-how, resources and operational capabilities. For instance, the Government has previously directed Saudi Aramco to develop and construct large infrastructure projects and provide management, logistical and other technical assistance for certain Government initiatives. See "*Related Party Transactions—Corporate Citizenship*". Prior to 2017, the Government reimbursed Saudi Aramco for its costs incurred relating to such Government-directed activities by allowing Saudi Aramco 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 Saudi Aramco contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise shall be on a commercial basis and on 5 September 2019, Saudi Aramco and the Government entered into a framework agreement to govern the furnishing of services by Saudi Aramco to the Government. See "*Related Party Transactions*". While these projects and initiatives have generally been of national importance to the Kingdom and in Saudi Aramco's long-term commercial interests, they have often been outside of Saudi Aramco's core businesses and have not always been consistent with its immediate commercial objectives or profit maximisation. If the Government directs Saudi Aramco to undertake future projects other than on a commercial basis, Saudi Aramco's financial position and results of operation may be materially and adversely affected.

## Risks Related 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.*

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

Although Saudi Aramco is majority-owned by the Government, Saudi Aramco's obligations under the Notes are not guaranteed by the Government. In addition, the Government is under no obligation to extend financial support to Saudi Aramco. Accordingly, Saudi Aramco's financial obligations, including its obligations under the Notes, are not, and should not be regarded as, obligations of the Government. Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco 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 Saudi Aramco'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 less than all, 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.

**Risks Related 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 Saudi Aramco's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which Saudi Aramco 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 Saudi Aramco. In this regard, on 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for total consideration of $69.1 billion. The entire purchase price and related loan charges were secured by promissory notes issued by the Issuer in favour of the PIF. Some of the promissory notes are fully transferable and assignable and may be pledged by the PIF, subject to a right of first refusal in favour of Saudi Aramco 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 "*—Risks related to Saudi Aramco, its Operations and Industry— Saudi Aramco may not realise some or all of the expected benefits of recent or future acquisitions, including the acquisition of a 70% equity interest in SABIC*" and "*Business—Operating Segments—Downstream—Acquisition of 70% 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 Saudi Aramco's business, prospects, financial position, cash flows or results of operations. Factors, including increased competition, fluctuations in commodity prices or Saudi Aramco'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. Saudi Aramco'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 Saudi Aramco by any rating agency could have a material adverse effect on the market value of the Notes, Saudi Aramco's cost of borrowing and its access to debt capital markets. In addition, Saudi Aramco'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.

**Risks Related 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 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 Related 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 be added to the Special Drawing Rights basket created by the International Monetary Fund, 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 prevailing 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 tax 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 tax resident enterprise holder from the transfer of RMB Notes but its implementation rules have reduced the EIT rate to 10% The PRC Individual Income Tax Law levies IIT at a rate of 20% of the gains derived by such non-PRC tax resident 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 tax 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.

Notwithstanding the above, certain tax treaties between PRC and the jurisdiction in which such non-PRC tax resident enterprise or individual holders of RMB Notes reside may reduce or exempt the relevant EIT or IIT. For example, 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 non-PRC tax resident enterprise or individual 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 tax resident enterprise or individual holders of RMB Notes reside 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 Saudi Aramco 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 Saudi Aramco has the right to operate and develop through the Concession and excludes reserves other entities have the right to develop, including AGOC, which operates in the partitioned territory between the Kingdom and the State of Kuwait.*

## Overview of Saudi Aramco

### *Overview of Saudi Aramco's Business*

Saudi Aramco is the world's largest integrated oil and gas company. In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 million barrels per day of crude oil (including blended condensate). Saudi Aramco's crude oil production accounted for approximately one in every eight barrels of crude oil produced globally from 2016 to 2019. As at 31 December 2019, Saudi Aramco's proved liquids reserves were 227.6 billion barrels. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. Saudi Aramco 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.

For the nine months ended 30 September 2020, Saudi Aramco generated SAR 200.9 billion ($53.6 billion) in net cash provided by operating activities and SAR 125.8 billion ($33.5 billion) of Free Cash Flow. For the year ended 31 December 2019, Saudi Aramco generated SAR 416.5 billion ($111.1 billion) in net cash provided by operating activities and SAR 293.6 billion ($78.3 billion) of Free Cash Flow. Saudi Aramco operates within a conservative financial framework and strives to maintain its Gearing ratio to within its long-term targeted range of 5% to 15%; however, following the acquisition of the PIF's 70% equity interest in SABIC, Saudi Aramco's Gearing ratio was 21.8% as compared to (0.2)% as at 30 September 2020 and 31 December 2019, respectively. Free Cash Flow and Gearing are non-IFRS financial measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see "*Alternative Performance Measures—Free Cash Flow*" and "*Alternative Performance Measures—Gearing*".

Saudi Aramco's upstream operations are based in the Kingdom, and it also operates a global downstream business. As at 30 September 2020, Saudi Aramco had two reportable segments, upstream and downstream, with all other supporting functions aggregated into a corporate segment.

*Upstream*

Saudi Aramco is a major producer of crude oil and condensate. In the nine months ended 30 September 2020, Saudi Aramco produced on average 12.4 million barrels per day of oil equivalent, including 9.2 million barrels per day of crude oil (including blended condensate and AGOC's share of the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait). Saudi Aramco reached a record level of production of 12.1 million barrels per day of crude oil on 2 April 2020 and 10.7 billion standard cubic feet per day of natural gas on 6 August 2020. In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 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, 9.0 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. Saudi Aramco 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 Saudi Aramco'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 2019, the Kingdom's reserves in the fields Saudi Aramco operates consisted of 336.7 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.0 billion barrels of NGLs and 237.4 trillion standard cubic feet of natural gas.

Pursuant to the Concession, effective 24 December 2017, Saudi Aramco's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, was limited to an initial period of 40 years, which will be extended by the Government for 20 years provided Saudi Aramco 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 Saudi Aramco and the Government agreeing on the terms of the extension. See "*Material Agreements—The Concession*". The provision of a specified term in the Concession impacts the calculation of Saudi Aramco's reserves as compared to the Kingdom's reserves in the fields Saudi Aramco operates. The Concession also requires Saudi Aramco 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 2019, Saudi Aramco's reserves were 258.6 billion barrels of oil equivalent. Saudi Aramco's oil equivalent reserves were sufficient for proved reserves life of 54 years, consisting of 201.9 billion barrels of crude oil and condensate, 25.7 billion barrels of NGLs and 190.6 trillion standard cubic feet of natural gas.

Saudi Aramco's average upstream lifting cost was SAR 10.6 ($2.8) per barrel of oil equivalent produced in 2019. In addition, Saudi Aramco's upstream capital expenditures for the year ended 31 December 2019 averaged SAR 17.5 ($4.7) per barrel of oil equivalent produced. Saudi Aramco'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 Saudi Aramco's reservoirs are located, synergies available from Saudi Aramco'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 Saudi Aramco's reservoirs and its operational model, it is possible to achieve high recovery factors while maintaining relatively low water cut levels for long periods of time.

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires Saudi Aramco 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. MSC was 12.0 million barrels of crude oil per day from 1 January 2019 to 30 September 2020. However, on 11 March 2020, the Government (acting through the Ministry of Energy) directed Saudi Aramco to increase MSC from 12.0 to 13.0 million barrels of crude oil per day. Saudi Aramco is currently evaluating the timing of, and the costs associated with, implementing the Government's directive to increase MSC. The spare capacity afforded by maintaining MSC enables Saudi Aramco to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. Saudi Aramco 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.

Saudi Aramco'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 2019. Saudi Aramco is the exclusive supplier of natural gas in the Kingdom and supplied 9.0 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane to the Kingdom in 2019. It owns and operates the MGS, which is an extensive network of pipelines that connects Saudi Aramco's key gas production and processing sites throughout the Kingdom. Saudi Aramco 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*

Saudi Aramco has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. The strategic integration of Saudi Aramco's upstream and downstream segments provides an opportunity for Saudi Aramco to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. The downstream segment's other business activities include base oils, lubricants and retail operations.

Saudi Aramco's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2019. Saudi Aramco's upstream business produces all the crude oil supplied to and processed by Saudi Aramco'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 2019, Saudi Aramco's weighted average ownership percentage in Saudi Aramco's international refineries was 42%, but it supplied an average of 51% of the crude oil used by those refineries. This crude placement provides significant benefits to Saudi Aramco's downstream operations, including a secure and reliable supply of high-quality crude oil, which helps to ensure a secure and reliable supply of refined products to its downstream customers.

As the sole supplier to the large domestic marketplace, Saudi Aramco's refining operations in the Kingdom, including its domestic affiliates, accounted for 59% of its net refining capacity in 2019. In addition to its domestic focus, Saudi Aramco 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.

Saudi Aramco also has an integrated petrochemicals business within its downstream segment, which enables it to capture incremental margin in the hydrocarbon value chain. Saudi Aramco'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. Saudi Aramco's chemicals business continues to grow through capacity expansions in the Kingdom, increasing ownership positions in affiliates and new investments, including the acquisition of the PIF's 70% equity interest in SABIC on 16 June 2020. Saudi Aramco's investment in SABIC makes it a major global producer of petrochemicals and expands its capabilities in procurement, manufacturing, marketing and sales. With the acquisition of a 70% equity interest in SABIC, as at 30 September 2020, Saudi Aramco's chemicals business operates in over 50 countries and produced a range of chemicals. Saudi Aramco expects that SABIC will benefit from Saudi Aramco's downstream chemicals feedstock production, and its ability to invest in and execute large scale projects. See "*Business—Operating Segments—Downstream—Acquisition of 70% Equity Interest in SABIC*".

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

Saudi Aramco's downstream segment includes its crude oil and product sales, distribution and trading platforms. These platforms support Saudi Aramco'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. Saudi Aramco also maintains flexibility to respond to fluctuations in demand through its five crude grades and MSC. This flexibility contributes to Saudi Aramco's ability to meet its customer's needs and its reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.2% of its delivery obligations on time in 2017, 2018 and 2019, respectively, and 99.9% of its delivery obligations on time in the first nine months of 2020.

*Corporate*

Saudi Aramco'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 Saudi Aramco's core activities, as well as 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 Dhahran, 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 Arabian American Oil 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, Arabian American Oil Company established refining and marketing joint ventures in strategic geographies 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, Saudi Aramco 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, Saudi Aramco entered into additional ventures with: Dow (Sadara), Lanxess (ARLANXEO), Petronas (PRefChem), Sinopec (YASREF), Sumitomo (Petro Rabigh), Total (SATORP), Shell (Motiva) and Mobil (Luberef). Saudi Aramco acquired full ownership of Motiva (formerly a joint venture with Shell) on 1 May 2017 and ARLANXEO (formerly an associate in partnership with Lanxess) on 31 December 2018. Saudi Aramco's historical association with major hydrocarbons companies has provided it with dedicated outlets for its crude oil, technical expertise and operational and financial discipline. Additionally, on 18 September 2019, Saudi Aramco acquired the 50% share of SASREF from Shell that it did not already own.

On 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for total consideration of \$69.1 billion. SABIC operates in over 50 countries and produces a range of chemicals.

**Business Strategies**

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

- Capture value from further strategic integration and diversification of its downstream operations

- Expand gas activities

- Expand global recognition of Saudi Aramco's brands

- Efficiently allocate capital and maintain a prudent and flexible balance sheet

- Deliver sustainable dividends through crude oil price cycles
- Operate sustainably by leveraging technology and innovation

**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
- Low 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
- Strong track record of supply reliability
- Largest customer for Saudi Aramco's upstream production
- Major integrated refiner with a global network of complex, reliable assets in key regional markets and hubs
- Scale and complexity advantage with one of the largest refining portfolios globally
- World class partners that provide access to additional geographies, technological expertise, operational know-how and marketing capabilities
- Major petrochemicals producer globally

**Saudi Aramco Competitive Strengths**

- High operating cash flow, Free Cash Flow, EBIT and ROACE
- Low Gearing
- 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.*

| | |
|---|---|
| **Issuer**.................................................. | Saudi Arabian Oil Company (Saudi Aramco). |
| **Issuer's Legal Entity Identifier (LEI):** | 5586006WD91QHB7J4X50. |
| **Description** ......................................... | Global Medium Term Note Programme. |
| **Arrangers and Dealers**....................... | J.P. Morgan Securities plc and Morgan Stanley & Co. International plc. |
| **Dealers** ................................................ | Citigroup Global Markets Limited, Goldman Sachs International, HSBC Bank plc, NCB Capital Company and any other Dealers appointed in accordance with the Dealer Agreement. |
| **Trustee**................................................ | Citibank N.A., London Branch. |
| **Principal Paying Agent, Transfer Agent and Calculation Agent**............ | Citibank N.A., London Branch. |
| **Registrar**............................................. | Citigroup Global Markets Europe AG. |
| **Programme Size**................................. | The Programme size is unlimited. |
| **Issuance** .............................................. | 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.<br><br>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.<br><br>See Condition 1 (*Form, Denomination and Title*) and "*Form of Final Terms*". |
| **Forms of Notes**................................... | 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.<br><br>See Condition 1 (*Form, Denomination and Title*). |
| **Clearing Systems** ............................... | 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*".

| | |
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| **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.<br><br>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.<br><br>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.<br><br>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.<br><br>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).<br><br>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).<br><br>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.<br><br>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).<br><br>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.<br><br>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).<br><br>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:<br><br>(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);<br><br>(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 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*). |
| **Listing** ................................................ | 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. |
| **Selling Restrictions** ............................ | 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 "*Subscription and Sale*". |
| **Risk Factors** ....................................... | Investing in the Notes involves a high degree of risk. |
| | See "*Risk Factors*". |

## USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by Saudi Aramco 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 Saudi Aramco's cash and cash equivalents and capitalisation as at 30 September 2020. Prospective investors should read this table in conjunction with "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Position and Results of Operations*" and the Financial Statements.

| | As at 30 September 2020 | |
|---|---|---|
| | **SAR** | **U.S.$** |
| | *(in millions)* | |
| **Cash and cash equivalents** | **197,649** | **52,706** |
| **Current borrowings** | **96,770** | **25,805** |
| **Non-current borrowings** | **411,552** | **109,747** |
| **Total equity:** | | |
| Share capital | 60,000 | 16,000 |
| Additional paid-in capital | 26,981 | 7,195 |
| Treasury shares | (3,750) | (1,000) |
| Retained earnings | | |
| Unappropriated | 914,962 | 243,990 |
| Appropriated | 6,000 | 1,600 |
| Other reserves | 391 | 105 |
| | **1,004,584** | **267,890** |
| Non-controlling interests | 109,153 | 29,107 |
| **Total equity** | **1,113,737** | **296,997** |
| **Total capitalisation** | **1,622,059** | **432,549** |

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

*The financial information of Saudi Aramco set forth below as at and for the years ended 31 December 2017, 2018 and 2019, for the nine months ended 30 September 2019 and as at and for the nine months ended 30 September 2020 has been derived from, should be read in conjunction with, 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 Financial Position and Results of Operations" and the Financial Statements and other financial data included elsewhere in this Base Prospectus.*

### Consolidated Statement of Income Data

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | |
|---|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2019** | **2020** | **2020** |
| | **SAR** | **SAR** | **SAR** | **U.S.$** | **SAR** | **SAR** | **U.S.$** |
| | | | | *(in millions)* | | | |
| Revenue | 840,483 | 1,182,137[1] | 1,105,696 | 294,852 | 822,143 | 548,857 | 146,362 |
| Other income related to sales | 150,176 | 152,641 | 131,089 | 34,957 | 102,444 | 69,436 | 18,516 |
| **Revenue and other income related to sales** | **990,659** | **1,334,778** | **1,236,785** | **329,809** | **924,587** | **618,293** | **164,878** |
| Royalties and other taxes | (140,893) | (208,505) | (182,141) | (48,571) | (137,983) | (67,120) | (17,899) |
| Purchases | (126,093) | (188,937)[1] | (225,170) | (60,045) | (163,185) | (126,257) | (33,669) |
| Producing and manufacturing | (56,962) | (56,202) | (58,249)[2] | (15,533)[2] | (42,173) | (56,713) | (15,123) |
| Selling, administrative and general | (30,994) | (31,250) | (36,647)[2] | (9,773)[2] | (24,061) | (29,154) | (7,774) |
| Exploration | (13,725) | (7,928) | (7,291) | (1,944) | (5,389) | (6,267) | (1,671) |
| Research and development | (1,902) | (2,217) | (2,150) | (573) | (1,449) | (1,785) | (476) |
| Depreciation and amortisation | (37,175) | (41,334) | (50,266)[2] | (13,404)[2] | (37,274) | (52,127) | (13,901) |
| **Operating costs** | **(407,744)** | **(536,373)** | **(561,914)** | **(149,843)** | **(411,514)** | **(339,423)** | **(90,513)** |
| **Operating income** | **582,915** | **798,405** | **674,871** | **179,966** | **513,073** | **278,870** | **74,365** |
| Share of results of joint ventures and associates | (956) | (1,415) | (9,455) | (2,521) | (2,443) | (4,302) | (1,147) |
| Finance and other income | 1,569 | 3,865 | 7,351 | 1,960 | 5,873 | 2,652 | 707 |
| Finance costs | (2,090) | (2,959) | (6,026)[2] | (1,607)[2] | (4,402) | (6,906) | (1,842) |
| **Income before income taxes and zakat** | **581,438** | **797,896** | **666,741** | **177,798** | **512,101** | **270,314** | **72,083** |
| Income taxes and zakat[3] | (296,819) | (381,378) | (336,048) | (89,613) | (256,391) | (139,006) | (37,068) |
| **Net income** | **284,619** | **416,518** | **330,693** | **88,185** | **255,710** | **131,308** | **35,015** |
| **Net income/(loss) attributable to:** | | | | | | | |
| Shareholder's equity | 283,198 | 416,196 | 330,816 | 88,218 | 255,805 | 133,180 | 35,514 |
| Non-controlling interests | 1,421 | 322 | (123) | (33) | (95) | (1,872) | (499) |
| | **284,619** | **416,518** | **330,693** | **88,185** | **255,710** | **131,308** | **35,015** |

(1) Amounts for 2018 do not reflect the reclassification of SAR 12,239 million of purchases reclassified to revenue that were made to the 2018 comparative amounts reflected in the 2019 Financial Statements. Saudi Aramco estimates that a similar reclassification of certain purchases to revenue would have been made for 2017 and is not reflected in the amounts for 2017 above.

(2) Saudi Aramco adopted IFRS 16 on 1 January 2019 using a modified retrospective approach. As a result, in the preparation of the 2019 Financial Statements, Saudi Aramco applied prospectively, starting 1 January 2019, the new classification and measurement models for lease contracts and consequently 2018 and prior period comparative information was not restated. For further information on the impact of IFRS 16 on Saudi Aramco's financial statements, see page F-17.

(3) Effective 1 January 2020, the tax rate applicable to Saudi Aramco's downstream activities is the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law. See *"Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes"*.

### Selected Consolidated Balance Sheet Data

| | As at 31 December | | | | As at 30 September | |
|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2020** | **2020** |
| | **SAR** | **SAR** | **SAR** | **U.S.$** | **SAR** | **U.S.$** |
| | | | *(in millions)* | | | |
| Cash and cash equivalents | 81,242 | 183,152 | 177,706 | 47,388 | 197,649 | 52,706 |
| Property, plant and equipment[1] | 751,134 | 873,827 | 982,014 | 261,870 | 1,195,717 | 318,858 |
| Total assets | 1,102,553 | 1,346,168 | 1,494,126 | 398,434 | 1,880,291 | 501,411 |
| Total borrowings | 77,598 | 101,318 | 175,585 | 46,823 | 508,322 | 135,552 |
| Total liabilities | 276,239 | 317,733 | 447,891 | 119,438 | 766,554 | 204,414 |
| Total equity | 826,314 | 1,028,435 | 1,046,235 | 278,996 | 1,113,737 | 296,997 |

(1) Saudi Aramco adopted IFRS 16 on 1 January 2019 using a modified retrospective approach. As a result, in the preparation of the 2019 Financial Statements, Saudi Aramco applied prospectively, starting 1 January 2019, the new classification and measurement models for lease contracts and consequently 2018 and prior period comparative information was not restated. For further information on the impact of IFRS 16 on Saudi Aramco's financial statements, see page F-17.

## Selected Consolidated Statement of Cash Flows Data

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | | 12 Months Ended 30 September | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | SAR | U.S.$ | SAR(1) | U.S.$ |
| | | | | | *(in millions)* | | | | |
| **Net cash provided by/(used in):** | | | | | | | | | |
| Operating activities... | 333,607 | 453,701 | 416,529 | 111,074 | 304,331 | 200,858 | 53,561 | 313,056 | 83,482 |
| Investing activities.... | (118,629) | (131,205) | (177,144) | (47,239) | (128,415) | 4,892 | 1,305 | (43,837) | (11,690) |
| Financing activities... | (181,811) | (220,586) | (244,831) | (65,288) | (187,226) | (185,807) | (49,548) | (243,412) | (64,910) |

(1) Calculated as the sum of nine months ended 30 September 2020 and year ended 31 December 2019 less nine months ended 30 September 2019.

## 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 Financial Position and Results of Operations" and the Financial Statements and other financial data included elsewhere in this Base Prospectus.*

Saudi Aramco supplements its use of IFRS financial measures with non-IFRS financial measures, including Free Cash Flow, Gearing, ROACE and EBIT. These non-IFRS financial measures do not have a standardised definition and other companies may calculate them differently. Therefore, Saudi Aramco'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. Saudi Aramco believes that the historical non-IFRS financial measures are useful as an additional tool to help management and investors make informed decisions about Saudi Aramco's financial position and operating performance or liquidity.

Unaudited information for the 12 months ended 30 September 2020 is calculated as the sum of the results of operations for the nine months ended 30 September 2020 and year ended 31 December 2019 less the results of operations for the nine months ended 30 September 2019. The unaudited financial information for the 12 months ended 30 September 2020 (i) is a non-IFRS financial measure, (ii) has been prepared solely for the purposes of this Base Prospectus, (iii) is not prepared in the ordinary course of Saudi Aramco's financial reporting, (iv) is not necessarily indicative of the results that may be expected for the year ending 31 December 2020, (v) should not be used as the basis for or a prediction of an annualised calculation and (vi) has not been audited.

An income tax of 50% applies to the Issuer, except in relation to its taxable income related to certain natural gas activities whereby a 20% rate has applied since 1 January 2018. Saudi Aramco's non-IFRS financial measures for certain periods are not directly comparable to such periods in previous years. In addition, Saudi Aramco sells certain hydrocarbons within the Kingdom at regulated prices mandated by the Government. Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products. Additionally, effective 1 January 2020, the tax rate applicable to Saudi Aramco's downstream activities is the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law, rather than the 50% to 85% multi-tiered structure of income tax rates that previously applied to domestic oil and hydrocarbons production companies in the Kingdom, on the condition that Saudi Aramco consolidates its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024. These changes impact net income, net cash provided by operating activities and cash and cash equivalents, and therefore impact Saudi Aramco's non-IFRS financial measures. As a result, Saudi Aramco's non-IFRS financial measures for the nine months ended 30 September 2020 are not directly comparable to such non-IFRS financial measures for the nine months ended 30 September 2019. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

Furthermore, Saudi Aramco adopted IFRS 16 on 1 January 2019. This adoption impacts operating expenses, current and non-current liabilities, net cash used in financing activities, net cash from operating activities and property, plant and equipment and related depreciation, and therefore impacts Saudi Aramco's non-IFRS financial measures. As a result, Saudi Aramco's non-IFRS financial measures for the nine months ended 30 September 2019 and 30 September 2020 are not directly comparable to prior periods.

Recent events related to COVID-19 have had an impact on Saudi Aramco's results of operations and financial position and Saudi Aramco cannot predict the effects of COVID-19 going forward. See "*Risk Factors—The outbreak of COVID-19 pandemic and its impact on business and economic conditions could negatively affect Saudi Aramco's business, financial position, cash flow, results of operations and price of its securities*" and "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Supply, Demand and Price for Hydrocarbons*".

## Free Cash Flow

Saudi Aramco uses Free Cash Flow to evaluate Saudi Aramco's cash available for financing activities, including dividend payments. Saudi Aramco defines Free Cash Flow as net cash provided by operating activities less capital expenditures.

The following table sets forth Saudi Aramco's Free Cash Flow for the years ended 31 December 2017, 2018 and 2019, the nine months ended 30 September 2019 and the nine months and 12 months ended 30 September 2020:

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | | 12 Months Ended 30 September | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | SAR | U.S.$ | SAR[(1)] | U.S.$ |
| | | | | | *(in millions)* | | | | |
| Net cash provided by operating activities | 333,607 | 453,701 | 416,529 | 111,074 | 304,331 | 200,858 | 53,561 | 313,056 | 83,482 |
| Capital expenditures | (121,955) | (131,766) | (122,882) | (32,769) | (84,615) | (75,106) | (20,028) | (113,373) | (30,233) |
| **Free Cash Flow** | **211,652** | **321,935** | **293,647** | **78,305** | **219,716** | **125,752** | **33,533** | **199,683** | **53,249** |

(1) Calculated as the sum of nine months ended 30 September 2020 and year ended 31 December 2019 less nine months ended 30 September 2019.

## Gearing

Gearing is a measure of the degree to which Saudi Aramco's operations are financed by debt. Saudi Aramco 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. Saudi Aramco operates within a conservative financial framework and strives to maintain its Gearing ratio to within its long-term targeted range of 5% to 15%; however, following the acquisition of the PIF's 70% equity interest in SABIC, Saudi Aramco's Gearing ratio was (0.2)% as at 31 December 2019 compared to 21.8% as at 30 September 2020.

The following table sets forth Saudi Aramco's Gearing as at 31 December 2017, 2018 and 2019 and as at 30 September 2020:

| | As at 31 December | | | | As at 30 September | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | U.S.$ |
| | | | *(in millions, except percentages)* | | | |
| Current borrowings | 8,906 | 29,989 | 24,895[(1)] | 6,639[(1)] | 96,770 | 25,805 |
| Non-current borrowings | 68,692 | 71,329 | 150,690[(1)] | 40,184[(1)] | 411,552 | 109,747 |
| **Total borrowings** | **77,598** | **101,318** | **175,585** | **46,823** | **508,322** | **135,552** |
| Cash and cash equivalents | (81,242) | (183,152) | (177,706) | (47,388) | (197,649) | (52,706) |
| **Net debt/(cash)** | **(3,644)** | **(81,834)** | **(2,121)** | **(565)** | **310,673** | **82,846** |
| Net debt/(cash) | (3,644) | (81,834) | (2,121) | (565) | 310,673 | 82,846 |
| Total equity | 826,314 | 1,028,435 | 1,046,235 | 278,996 | 1,113,737 | 296,997 |
| **Net debt/(cash) and total equity** | **822,670** | **946,601** | **1,044,114** | **278,431** | **1,424,410** | **379,843** |
| **Gearing** | **(0.4)%** | **(8.6)%** | **(0.2)%** | **(0.2)%** | **21.8%** | **21.8%** |

(1) Saudi Aramco adopted IFRS 16 on 1 January 2019 using a modified retrospective approach. As a result, in the preparation of the 2019 Financial Statements, Saudi Aramco applied prospectively, starting 1 January 2019, the new classification and measurement models for lease contracts and consequently 2018 and prior period comparative information was not restated. For further information on the impact of IFRS 16 on Saudi Aramco's financial statements, see page F-17.

## Return on Average Capital Employed

ROACE measures the efficiency of Saudi Aramco's utilisation of capital. Saudi Aramco 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 Saudi Aramco's total borrowings plus total equity at the beginning and end of the applicable period. Saudi Aramco utilises ROACE to evaluate management's performance and demonstrate to its shareholder that capital has been used effectively.

The following table sets forth Saudi Aramco's ROACE for the years ended 31 December 2017, 2018 and 2019 and the 12 months ended 30 September 2020:

| | Year Ended 31 December | | | | 12 Months Ended 30 September | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | U.S.$ |
| | (in millions, except percentages) | | | | | |
| Net income | 284,619 | 416,518 | 330,693 | 88,185 | 206,291 | 55,010 |
| Finance costs, net of incomes taxes and zakat | 1,045 | 1,480 | 3,013 | 804 | 4,265 | 1,137 |
| **Net income before finance costs, net of income taxes and zakat** | **285,664** | **417,998** | **333,706** | **88,989** | **210,556** | **56,147** |
| **As at period start:** | | | | | | |
| Current borrowings | 8,982 | 8,906 | 29,989 | 7,997 | 40,006 | 10,668 |
| Non-current borrowings | 43,477 | 68,692 | 71,329 | 19,021 | 133,288 | 35,543 |
| Total equity | 735,346 | 826,314 | 1,028,435 | 274,249 | 1,049,446 | 279,852 |
| **Capital employed** | **787,805** | **903,912** | **1,129,753** | **301,267** | **1,222,740** | **326,063** |
| **As at period end:** | | | | | | |
| Current borrowings | 8,906 | 29,989 | 24,895[(1)] | 6,639 | 96,770 | 25,805 |
| Non-current borrowings | 68,692 | 71,329 | 150,690[(1)] | 40,184 | 411,552 | 109,747 |
| Total equity | 826,314 | 1,028,435 | 1,046,235 | 278,996 | 1,113,737 | 296,997 |
| **Capital employed** | **903,912** | **1,129,753** | **1,221,820** | **325,819** | **1,622,059** | **432,549** |
| **Average capital employed** | **845,859** | **1,016,833** | **1,175,787** | **313,543** | **1,422,400** | **379,306** |
| **ROACE** | **33.8%** | **41.1%** | **28.4%** | **28.4%** | **14.8%** | **14.8%** |

(1) Saudi Aramco adopted IFRS 16 on 1 January 2019 using a modified retrospective approach. As a result, in the preparation of the 2019 Financial Statements, Saudi Aramco applied prospectively, starting 1 January 2019, the new classification and measurement models for lease contracts and consequently 2018 and prior period comparative information was not restated. For further information on the impact of IFRS 16 on Saudi Aramco's financial statements, see page F-17.

## EBIT

Saudi Aramco defines EBIT as net income plus finance costs and income taxes and zakat, less finance income. Saudi Aramco believes EBIT provides useful information regarding its financial performance to analysts and investors.

The following table sets forth Saudi Aramco's EBIT for the years ended 31 December 2017, 2018 and 2019, the nine months ended 30 September 2019 and the nine months and 12 months ended 30 September 2020:

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | | 12 Months Ended 30 September | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | SAR | U.S.$ | SAR | U.S.$ |
| | | | | | (in millions) | | | | |
| Net income | 284,619 | 416,518 | 330,693 | 88,185 | 255,710 | 131,308 | 35,015 | 206,291 | 55,010 |
| Finance income | (1,217) | (2,840) | (5,534) | (1,476) | (4,125) | (2,315) | (617) | (3,724) | (993) |
| Finance costs | 2,090 | 2,959 | 6,026 | 1,607 | 4,402 | 6,906 | 1,842 | 8,530 | 2,275 |
| Income taxes and zakat | 296,819 | 381,378 | 336,048 | 89,613 | 256,391 | 139,006 | 37,068 | 218,663 | 58,310 |
| **EBIT** | **582,311** | **798,015** | **667,233** | **177,929** | **512,378** | **274,905** | **73,308** | **429,760** | 114,602 |

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

*The following management's discussion and analysis of Saudi Aramco's financial position and results of operations 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". Saudi Aramco'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.*

*In the preparation of its 2019 Financial Statements, Saudi Aramco reclassified certain 2018 transactions that appear in the 2018 comparative column included in the 2019 Financial Statements. See page F-29. The financial information as at and for the year ended 31 December 2018 has been extracted from the 2018 Financial Statements, rather than the 2018 comparative column of the 2019 financial statements.*

*The financial information of Saudi Aramco set forth below as at and for the years ended 31 December 2017, 2018 and 2019, for the nine months ended 30 September 2019 and as at and for the nine months ended 30 September 2020 has been derived from, should be read in conjunction with, the Financial Statements contained elsewhere in this Base Prospectus.*

### Overview

Saudi Aramco is the world's largest integrated oil and gas company. In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 million barrels per day of crude oil (including blended condensate). Saudi Aramco's crude oil production accounted for approximately one in every eight barrels of crude oil produced globally from 2016 to 2019. As at 31 December 2019, Saudi Aramco's proved liquids reserves were 227.6 billion barrels. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. Saudi Aramco 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.

Saudi Aramco's upstream operations are based in the Kingdom, and it also operates a global downstream business. As at 30 September 2020, Saudi Aramco had two reportable segments, upstream and downstream, with all other supporting functions aggregated into a corporate segment.

The majority of Saudi Aramco's revenues have historically been derived from its upstream segment. The following table highlights Saudi Aramco's revenue and other income related to sales by business segment for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, excluding inter-segment revenue:

| | Year Ended 31 December | | | | | | | | Nine Months Ended 30 September | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2018[(1)] | | 2019 | | 2019 | | 2019 | | 2020 | | 2020 | |
| | SAR | | SAR | | SAR | | U.S.$ | | SAR | | SAR | | U.S.$ | |
| **Revenue and other income related to sales** | *(in millions, except percentages)* | | | | | | | | | | | | | |
| Upstream | 603,141 | 61% | 813,422 | 61% | 743,696 | 60% | 198,319 | 60% | 559,291 | 61% | 337,922 | 55% | 90,113 | 55% |
| Downstream | 386,308 | 39% | 520,027 | 39% | 491,742 | 40% | 131,131 | 40% | 364,446 | 39% | 279,341 | 45% | 74,491 | 45% |
| Corporate | 1,210 | — | 1,329 | — | 1,347 | — | 359 | — | 850 | — | 1,030 | — | 275 | — |
| **Total[(2)]** | **990,659** | **100%** | **1,334,778** | **100%** | **1,236,785** | **100%** | **329,809** | **100%** | **924,587** | **100%** | **618,293** | **100%** | **164,878** | **100%** |

(1) Amounts for 2018 do not reflect the reclassification of SAR 12,239 million of purchases reclassified to revenue that were made to the 2018 comparative amounts reflected in the 2019 Financial Statements. Saudi Aramco estimates that a similar reclassification of certain purchases to revenue would have been made for 2017 and is not reflected in the amounts for 2017 above.

(2) Total does not include inter-segmental revenue.

In addition, certain of Saudi Aramco's downstream products sold in the Kingdom are sold at regulated prices mandated by the Government. The regulated prices often are lower than the prices at which Saudi Aramco could otherwise have sold such refined products. Pursuant to an equalisation mechanism, the Government compensates

Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products, with equalisation compensation recorded as other income related to sales. Effective 1 January 2020, the Government expanded the equalisation mechanism to include LPGs and certain other products. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—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 periodically, depending on the product. Notwithstanding this equalisation compensation, Saudi Aramco expects that its upstream business will continue to constitute a substantial majority of its net income.

However, Saudi Aramco 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, Saudi Aramco 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 Saudi Aramco's upstream and downstream segments provides a unique opportunity for Saudi Aramco to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. As a result of Saudi Aramco's recent expansions of its downstream operations, including through its acquisition of the PIF's 70% equity interest in SABIC in June 2020, Saudi Aramco expects that the downstream segment will constitute a larger component of its business in the future. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Investments and Acquisitions in Expansion of Downstream Segment*". At the same time, Saudi Aramco 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 Saudi Aramco's total revenues, net income and cash flow.

**Factors Affecting Saudi Aramco's Financial Position and Results of Operations**

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

***Supply, Demand and Price for Hydrocarbons***

Saudi Aramco'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 Saudi Aramco's consolidated revenue and other income related to sales, accounting for 56.5%, 56.4% and 57.3% of its consolidated revenue and other income related to sales for the years ended 31 December 2017, 2018 and 2019, respectively and 50.3% for the nine months ended 30 September 2020. Accordingly, Saudi Aramco's results of operations and cash flow are significantly impacted by the price at which it sells crude oil.

International crude oil prices have fluctuated significantly in the past and may remain volatile. Between January 2016 and February 2020, Brent prices generally fluctuated between $40.0 and $65.0 per barrel. However, most recently, Brent prices fell below $23.0 per barrel in mid-March 2020 and generally fluctuated between $30.0 and $45.0 through 30 September 2020, in response to the COVID-19 pandemic and its impact on worldwide demand for oil and economic activity as well as other supply and demand factors. Because the consequences and duration of these events is uncertain, Saudi Aramco is not able to predict the full extent and impact lower oil prices will have on Saudi Aramco's results of operations and cash flow.

The COVID-19 pandemic and measures taken to combat it have severely impacted economic activity and led to lower demand for crude oil, natural gas, refined products and petrochemicals, which resulted in significant volatility in crude oil prices and refining and chemicals margins — key drivers of Saudi Aramco's results of operations and cash flows.

The price of crude oil significantly impacts the upstream segment's results of operations and is linked to Saudi Aramco'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;
- global economic and political conditions and geopolitical events, including any that impact international trade (including trade routes);
- decisions regarding production levels by the Kingdom or other producing states (the Kingdom is a member country of OPEC) (see "*Business—Relationship with the Kingdom*");
- the impact of natural disasters and public health pandemics or epidemics (such as the novel strain of coronavirus causing COVID-19) on supply and demand for crude oil, general economic conditions and the ability to deliver crude oil;
- 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—Risks Related to Macro-Economic Environment and External Factors—Climate change concerns and impacts could reduce global demand for hydrocarbons and hydrocarbon-based products and could cause Saudi Aramco 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—Legal and Regulatory Risks—Saudi Aramco's operations are subject to environmental protection, health and safety laws and regulations and increased concerns regarding the safe use of chemicals and plastics and their potential impact on the environment have resulted in more restrictive regulations and could lead to new regulations*");
- prices of alternative energies, including renewable energy;
- the electrification of transportation, technological developments in the cost or endurance of fuel cells for electric vehicles and changes in transportation-mode preferences, including ride-sharing;
- weather conditions affecting supply and demand;
- fluctuations in the value of the U.S. Dollar, the currency in which crude oil is priced globally; and
- crude oil trading activities.

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 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, Saudi Aramco'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 Saudi Aramco to meet domestic demand for certain hydrocarbons, petroleum products and LPGs. See "*Material Agreements—The Concession*". Saudi Aramco's downstream product mix includes a high proportion of low margin refined products, such as fuel oil, to satisfy domestic demand for such products. As domestic demand for hydrocarbon products grows and new dedicated outlets for crude oil production in Saudi Aramco's downstream segment become operational, such as the 400,000 barrel per day Jazan refinery, volumes of crude oil available for export may decrease.

The supply, demand and price for hydrocarbon products also affects the results of operations of ATC, Saudi Aramco's in-house trading business, which trades internationally and delivers Saudi Aramco'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 Saudi Aramco produces in a given year is sold within that year. Saudi Aramco sells crude oil to its downstream wholly owned and affiliated refineries under long-term sales or offtake agreements. Saudi Aramco'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 Saudi Aramco 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 Saudi Aramco's crude oil to its in-Kingdom and international wholly owned and affiliated refineries. As a result, because Saudi Aramco's crude oil prices are tied to global crude oil market prices, Saudi Aramco's results of operations for any given period will reflect volatility in those prices. See "*Business—Operating Segments—Crude Oil and Condensate—Sales and Marketing*".

In 2019, 38% of Saudi Aramco's crude oil production volumes were sold to its downstream refining system. Saudi Aramco maintains seven international offices as part of Saudi Aramco's crude oil sales and marketing function. In anticipation of expected growth in oil demand from Asia, Saudi Aramco is focussed on crude oil exports to Asia. In 2017, 2018 and 2019, customers in Asia, including Saudi Aramco's affiliated refineries located in Asia, purchased 71%, 71% and 77%, respectively, of Saudi Aramco's crude oil exports.

The following table highlights the destinations of Saudi Aramco's crude oil deliveries for each of the years ended 31 December 2017, 2018 and 2019:

| | **Year Ended December 31** | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| | *(in thousand barrels per day)* | | |
| **Region:** | | | |
| Asia (ex-Kingdom) | 5,073 | 5,211 | 5,436 |
| North America | 1,005 | 1,013 | 563 |
| Europe | 779 | 864 | 802 |
| Other | 243 | 240 | 248 |
| **Total international crude oil deliveries(1)** | **7,099** | **7,328** | **7,049** |
| In-Kingdom crude oil deliveries at unregulated prices | 2,606 | 2,567 | 2,461 |
| In-Kingdom crude oil deliveries at regulated prices | 459 | 410 | 425 |
| **Total in-Kingdom crude oil deliveries** | **3,065** | **2,977** | **2,886** |
| **Total crude oil deliveries(1)(2)** | **10,164** | **10,305** | **9,935** |

(1) Includes condensate blended with crude oil of 121 mbpd, 125 mbpd and 120 mbpd for the years ended 31 December 2017, 2018 and 2019, respectively.
(2) Deliveries do not include volumes produced from Abu Sa'fah and delivered to the Kingdom of Bahrain, which was 153 mbpd, 152 mbpd and 152 mbpd for the years ended 31 December 2017, 2018 and 2019, respectively.

### *Upstream Gas Sales*

Pursuant to the Concession, Saudi Aramco is the exclusive supplier of natural gas in the Kingdom. All natural gas produced by Saudi Aramco is sold in-Kingdom. From 2003 to 2019, Saudi Aramco significantly expanded its gas processing capacity from 9.3 billion standard cubic feet per day to 17.0 billion standard cubic feet per day. Saudi Aramco 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. Saudi Aramco 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. Saudi Aramco 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, Saudi Aramco expects demand for natural gas to be driven by petrochemical production and other industrial consumption.

Saudi Aramco sells natural gas within the Kingdom at regulated prices mandated by the Government and is obligated under the Concession to meet domestic hydrocarbon demand through either domestic production or imports. Effective 27 March 2018, the Government implemented a mechanism under which regulations passed by the Council of Ministers empower the Ministry of Energy, in agreement with the Ministry of Finance, to enable Saudi Aramco 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*

Saudi Aramco's downstream products sold domestically through 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 are lower than the prices at which Saudi Aramco could otherwise have sold such refined products. Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products, with equalisation compensation recorded as other income related to sales. Effective 1 January 2020, the Government expanded the equalisation mechanism to include LPGs and certain other products. 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. Saudi Aramco 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 Saudi Aramco's upstream and downstream segments provides a unique opportunity for Saudi Aramco 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 2017, 2018 and 2019, the downstream segment consumed 39%, 38% and 38% of the upstream segment's total crude oil production in those periods, respectively, making Saudi Aramco's downstream business the largest single customer of its upstream business in those years. Expansion of the downstream segment's refining capacity increases Saudi Aramco's ability to place more of its crude oil volumes with its downstream operations globally. As Saudi Aramco's refining capacity at its dedicated outlets for its crude oil increases, Saudi Aramco expects to deliver more crude oil volumes to these customers. Saudi Aramco believes an integrated global downstream business, coupled with future downstream investments, will facilitate the placement of Saudi Aramco'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. Saudi Aramco has expanded and intends to continue to expand its downstream business, including through acquisitions, affiliates and international investments.

On 16 June 2020, Saudi Aramco acquired a 70% equity interest in SABIC. This transaction led to SABIC being consolidated into Saudi Aramco's financial statements and SABIC's results of operations being consolidated with Saudi Aramco's from the date of the acquisition.

In addition, Saudi Aramco has undertaken significant expansion projects at its downstream facilities. Saudi Aramco's capital expenditures in its downstream segment were SAR 35.6 billion in 2017, SAR 32.7 billion in 2018 and SAR 26.7 billion ($7.1 billion) in 2019. Saudi Aramco's capital expenditures in its downstream segment were SAR 17.2 billion ($4.6 billion) for the nine months ended 30 September 2020, which includes capital expenditures incurred by SABIC since the acquisition date. This compares to SAR 18.0 billion for the nine months ended 30 September 2019, which amount does not include capital expenditures incurred by SABIC during such period. See "*—Liquidity and Capital Resources—Cash Used in Investing Activities—Capital Expenditures*".

Furthermore, Saudi Aramco has recently entered into new downstream ventures and has completed significant transactions to increase its ownership stake in entities that were formerly joint ventures. For example, on 31 December 2018, Saudi Aramco purchased the 50% share of ARLANXEO from Lanxess that it did not already own, which led to Saudi Aramco fully consolidating ARLANXEO into its financial statements from 31 December 2018. Additionally, on 18 September 2019, Saudi Aramco acquired Shell's 50% interest in SASREF that it did not already own.

Moreover, on 17 December 2019, Saudi Aramco acquired a 17% equity interest in Hyundai Oilbank, an integrated refinery the portfolio of which includes oil refining, base oil, petrochemicals and a network of gas stations. As at 31 December 2019, the integrated refinery had a capacity of 650,000 barrels per day, of which Saudi Aramco's share was 110,500 barrels per day. On 31 October 2019, Saudi Aramco acquired 100% of the equity interest in Motiva Chemical, previously known as Flint Hills, which owns and operates a chemical plant located in Port Arthur, Texas, comprised of a mixed feed cracker, a cyclohexane unit, a benzene unit, NGL and ethylene pipelines and storage facilities.

### *Fiscal Regime Changes*

In recent years, the Government has adopted a number of changes to the fiscal regime under which Saudi Aramco operates. Among other things, these changes align the fiscal regime to which Saudi Aramco 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 Saudi Aramco.

- *Income tax rate*. Saudi Aramco and its interests in non-publicly-traded in-Kingdom entities are subject to the Kingdom's Income Tax Law. The Kingdom's Income Tax Law includes a 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 structure, an income tax of 50% applies to the Issuer. Effective 1 January 2018, a 20% rate applies to the Issuer'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, the Issuer's interests in non-publicly-traded in-Kingdom subsidiaries are generally subject to a 20% tax rate, unless such subsidiary is engaged in the production of oil and its associated hydrocarbon products in which case the 50% to 85% multi-tiered structure of income tax rates applies, except that a 20% rate would apply to such subsidiary's taxable income related to certain natural gas activities as described above.

  Additionally, by Royal Decree No. M/13, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), Council of Ministers Resolution No. 54, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019) and Ministerial Resolution issued by the Ministry of Finance No. 559, dated 10/2/1441 in the Hijri calendar (corresponding to 9 October 2019), effective 1 January 2020, the tax rate applicable to Saudi Aramco's downstream activities is the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law, rather than the 50% to 85% multi-tiered structure of income tax rates that previously applied to domestic oil and hydrocarbons production companies in the Kingdom, on the condition that Saudi Aramco consolidates its downstream business under the control of one or more separate, wholly owned subsidiaries before 31 December 2024. If Saudi Aramco does not comply in so consolidating its downstream business by 31 December 2024, Saudi Aramco's downstream business will be taxed retroactively on an annual basis for such five-year period in accordance with the multi-tiered tax rates applicable to domestic oil and hydrocarbon production companies. In such case, Saudi Aramco will be required to pay the difference in taxes due to the Government.

Moreover, by Royal Decree No. M/153 dated 05/11/1441 in the Hijri calendar (corresponding to 26 June 2020), the Income Tax Law was further amended to provide that shares held directly or indirectly in companies listed on Tadawul by Saudi taxpayers engaged in oil and hydrocarbon activities are now exempt from corporate income taxes and instead subject to Zakat, including their indirect interest in those companies (at the level of the investee/subsidiary). As a result, Saudi Aramco's ownership interests in certain entities, including SABIC, Petro Rabigh and Saudi Electricity Company are now subject to Zakat instead of income taxes.

- *Royalties*. 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 Saudi Aramco's consolidated statement of income as "production royalties".

  Crude oil and condensate production value is based each month on Saudi Aramco's official selling prices for each destination. Prior to 1 January 2020, the effective royalty rate was determined based on a baseline rate of 20% applied to Brent prices up to $70.0 per barrel, increasing to 40% applied to Brent prices above $70.0 per barrel up to $100.0 per barrel and 50% applied to Brent prices above $100 per barrel. Effective 1 January 2020, the Concession Amendment, entered into on 19 September 2019, resulted in a change to the effective royalty rates payable to the Government with respect to Saudi Aramco's production of crude oil and condensates, including those used by Saudi Aramco in its operations. Based on the Concession Amendment, after 1 January 2020, the effective royalty is determined based on a baseline rate of 15% applied to Brent prices up to $70.0 per barrel, increasing to a marginal rate of 45% applied to Brent prices above $70.0 per barrel up to $100.0 per barrel and a marginal rate of 80% applied to Brent prices above $100.0 per barrel.

  Pursuant to the Ministry of Energy's authority under the Concession, on 25 February 2018, the Ministry of Energy decided not to collect royalties from the Issuer on condensate production for a grace period of five years beginning on 1 January 2018. On 17 September 2019, the Ministry of Energy issued Ministerial Resolution No. 1/422/1441, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), which extends the period for which the Issuer will not be obligated to pay royalties on condensate production for an additional 10-year period from 1 January 2023, the day following the expiration of the five-year grace period extendable for an additional 10-year period, and may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development do not warrant such an extension.

  Production royalties due on natural gas, ethane and NGLs, excluding those volumes used by Saudi Aramco for upstream operations and related operations (including transportation, pipelines and storage and export facilities, fractionation plants, gas and NGLs plants) are calculated based on a flat royalty rate of 12.5% applied to a factor established by the Ministry of Energy. As at the date of 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.

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. In 2017, revenue was reduced by royalties of SAR 5.5 billion on these volumes, which were paid in 2018.

- *Price Equalisation*. Pursuant to the Concession, Saudi Aramco possesses the exclusive right to sell crude oil and refined products in the Kingdom. In connection with this exclusive right, the Government mandates that crude oil and certain refined products sold to third parties in the Kingdom are sold at regulated prices that are typically lower than the prices at which Saudi Aramco could otherwise have sold such products. Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020, the Government expanded the equalisation mechanism to include LPGs and certain other products. Saudi Aramco records the equalisation amount as other income related to sales on its consolidated statement of income and such amount is subject to income tax. Saudi Aramco 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, Saudi Aramco 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 Saudi Aramco to the Government. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons*".

  The Government has publicly announced its intention to gradually modify the regulated prices at which refined products are sold in the Kingdom. The regulated prices will be linked as a percentage to the reference equalisation price of the relevant product and will fluctuate according to fluctuations in global markets. As regulated prices increase, Saudi Aramco expects that equalisation compensation will decrease and that, in turn, the amount of other income related to sales recorded by Saudi Aramco will decrease, with an offsetting increase in revenue from product sales.

- *Gas Price System*. Gas sales in the Kingdom are regulated by the Government, including the Ministry of Energy, which allocates volumes for sales of Regulated Gas Products in the Kingdom to domestic customers pursuant to the GSPR. The price that domestic customers pay for natural gas and ethane is traditionally set by the Council of Ministers. Effective on 27 March 2018, the Council of Ministers empowered the Ministry of Energy, in agreement with the Ministry of Finance, to specify the Blended Price in order to provide licencees making gas investments a suitable rate of return for these products in the Kingdom. The Council of Ministers also decided that the domestic prices for Regulated Gas Products (excluding any Government fees or VAT) shall not be lower than the Blended Price. If Domestic Prices are higher than the Blended Price, licencees shall pay the difference to the Government. Subsequently, the Ministry of Energy in agreement with the Ministry of Finance issued a ministerial decision setting such Blended Price at a level they determined would permit licencees to achieve reasonable internal rates of return on existing non-associated gas projects and on future non-associated projects.

  Effective as at 17 September 2019, the Government implemented an equalisation mechanism to compensate licencees for revenue they directly forgo as a result of the licencees' compliance with the mandates related to Regulated Gas Products. This equalisation mechanism replaced the prior system, which required that Government-mandated prices for domestic supply of Regulated Gas Products could not be lower than the corresponding Blended Prices. Under the new system, when licencees sell any Regulated Gas Products domestically at a Domestic Price below the corresponding Blended Price, the licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of the licencees' compliance with the Kingdom's current pricing mandates. Saudi Aramco may offset the compensation it is due against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by Saudi Aramco to the Government, such as royalties.

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

*Government guarantee*. Saudi Aramco 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. The Government guarantees amounts due to Saudi Aramco 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 Saudi Aramco, subject to limits on the amount of the guarantee for each entity. The aggregate amount guaranteed in respect of 2017, 2018 and 2019 was SAR 22.4 billion, SAR 32.7 billion and SAR 26.7 billion ($7.1 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*", Saudi Aramco 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 Saudi Aramco 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, Saudi Aramco may offset such amounts against any other amounts Saudi Aramco owes to the Government.

- *Compensation for Saudi Strategic Storage Program*. Under the Saudi Strategic Storage Program, the Government requires Saudi Aramco to maintain reserves of certain petroleum products. Pursuant to Council of Ministers Resolution No. 56, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), effective 1 January 2020, the Government compensates Saudi Aramco for carrying costs associated with maintaining Government-mandated petroleum product reserves in an amount of $41.2 million per month. Council of Ministers Resolution No. 56 requires that this amount be reviewed by the Ministry of Energy, the Ministry of Finance and Saudi Aramco every five years.

### *Seasonality*

The operating results of Saudi Aramco'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 generally an increase in natural gas demand for the utilities sector during the summer months in the Kingdom (June, July and August). As such, Saudi Aramco's upstream segment produces and sells more natural gas during this period. In addition, there is usually 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, Saudi Aramco's downstream segment sells more diesel, gasoline and jet fuel. Saudi Aramco expects these trends to continue in future years. While seasonality continued to impact the demand for natural gas during the summer months in 2020, the COVID-19 pandemic and measures taken to combat it have had a significant impact on travel and tourism in the Kingdom, which has reduced the impact of seasonality on the demand for diesel, gasoline and jet fuel during the Kingdom's major holidays.

## 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.

In 2019, Saudi Aramco delivered Arabian crude oil to customers located in 36 countries. However, for accounting purposes, Saudi Aramco records its revenue by geographical area based on the location of the entity that generated the revenue. Saudi Aramco sells crude oil, gas, refined products and petrochemical products under different sales incoterms. Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco 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 Saudi Aramco's financial statements.

***Other Income Related to Sales***

Other income related to sales reflects the equalisation payments received from the Government to compensate Saudi Aramco for the difference between the equalisation prices and the regulated prices for the sales of certain hydrocarbon and refined products within the Kingdom. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes—Price Equalisation*".

***Royalties and Other Taxes***

Royalties and other taxes primarily consist of the royalties attributable to the production of crude oil, natural gas and NGLs. Royalties are accounted for as an expense. Other taxes consist of amounts paid by Motiva based on its operations in the United States. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes—Royalties*".

***Purchases***

Purchases primarily consist of refined products, chemicals and crude oil purchased from third parties for use in Saudi Aramco's 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 when it is cost effective. For example, various downstream operations from time to time purchase crude oil from third parties to use as a feedstock. Purchases also include ATC's procurement of refined products and chemicals as part of its trading operations and from 1 May 2017, purchases by Motiva under its buying and selling arrangements and for its trading operations. Saudi Aramco expects that, once operational, the Jazan integrated petrochemical refinery, 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 Saudi Aramco's products.

***Selling, Administrative and General***

Selling, administrative and general expenses consist of costs related to supporting the operations and services of Saudi Aramco and certain other expenses. Costs related to supporting the operations and services of Saudi Aramco 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 Saudi Aramco'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.

Saudi Aramco engages in a range of corporate citizenship projects and initiatives outside Saudi Aramco's core business to support the communities and environment in which it operates. Saudi Aramco 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 Saudi Aramco's long-term commercial interests. The Government previously compensated Saudi Aramco for its efforts relating to such activities by either allowing Saudi Aramco to reduce its taxable income by the amount of costs incurred or directly reimbursing Saudi Aramco though a tax credit. The Concession requires that all Saudi Aramco 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 Saudi Aramco-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 Saudi Aramco. For certain projects directed by the Government, the Government provides a ministerial decree from the relevant Government ministry which allows Saudi Aramco to credit its costs related to these projects against Saudi Aramco's tax liability. For example, certain major infrastructure projects undertaken at the direction of the Government for which the Government reimburses Saudi Aramco's costs in full are not reflected in Saudi Aramco's financial statements because they have neither a positive nor negative impact on Saudi Aramco's financial position or results of operations. 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 Saudi Aramco'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*".

Saudi Aramco 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 the 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 Saudi Aramco'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 of Joint Ventures and Associates***

Share of results of joint ventures and associates includes Saudi Aramco's share of profit or loss related to entities that are accounted for using the equity method. A significant portion of Saudi Aramco's downstream business is conducted through joint ventures and associate companies. As at 1 May 2017, Saudi Aramco 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 Saudi Aramco. This led to the consolidation of Motiva's results of operations into Saudi Aramco's financial statements from 1 May 2017 instead of being accounted for using the equity method as in prior periods. On 31 December 2018, Saudi Aramco purchased the 50% equity interest in ARLANXEO from Lanxess that it did not already own, which led to Saudi Aramco fully consolidating ARLANXEO onto its balance sheet from 31 December 2018 and its results of operations from 1 January 2019. Prior to the full acquisition, Saudi Aramco's stake in ARLANXEO was accounted for as an investment in associate. On 18 September 2019, Saudi Aramco acquired Shell's 50% equity interest in SASREF that it did not already own, and fully consolidated the business from the date of acquisition. Prior to the acquisition, Saudi Aramco reflected its stake in SASREF as a joint operation. For further information, see "*—Summary of Significant Accounting Policies—Principles of Consolidation and Equity Accounting—Joint Arrangements*".

### *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 Saudi Aramco's finance lease liabilities and borrowing liabilities, including its revolving credit facility agreement and Sukuk Programme.

## Consolidated Results of Operations for the Years ended 31 December 2017, 2018 and 2019 and the Nine Months Ended 30 September 2019 and 2020

The following table sets forth Saudi Aramco's consolidated statement of income for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020:

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | SAR | U.S.$ |
| | | | | *(in millions)* | | | |
| Revenue | 840,483 | 1,182,137[1] | 1,105,696 | 294,852 | 822,143 | 548,857 | 146,362 |
| Other income related to sales | 150,176 | 152,641 | 131,089 | 34,957 | 102,444 | 69,436 | 18,516 |
| **Revenue and other income related to sales** | **990,659** | **1,334,778** | **1,236,785** | **329,809** | **924,587** | **618,293** | **164,878** |
| Royalties and other taxes | (140,893) | (208,505) | (182,141) | (48,571) | (137,983) | (67,120) | (17,899) |
| Purchases | (126,093) | (188,937)[1] | (225,170) | (60,045) | (163,185) | (126,257) | (33,669) |
| Producing and manufacturing | (56,962) | (56,202) | (58,249)[2] | (15,533)[2] | (42,173) | (56,713) | (15,123) |
| Selling, administrative and general | (30,994) | (31,250) | (36,647)[2] | (9,773)[2] | (24,061) | (29,154) | (7,774) |
| Exploration | (13,725) | (7,928) | (7,291) | (1,944) | (5,389) | (6,267) | (1,671) |
| Research and development | (1,902) | (2,217) | (2,150) | (573) | (1,449) | (1,785) | (476) |
| Depreciation and amortisation | (37,175) | (41,334) | (50,266)[2] | (13,404)[2] | (37,274) | (52,127) | (13,901) |
| **Operating costs** | **(407,744)** | **(536,373)** | **(561,914)** | **(149,843)** | **(411,514)** | **(339,423)** | **(90,513)** |
| **Operating income** | **582,915** | **798,405** | **674,871** | **179,966** | **513,073** | **278,870** | **74,365** |
| Share of results of joint ventures and associates | (956) | (1,415) | (9,455) | (2,521) | (2,443) | (4,302) | (1,147) |
| Finance and other income | 1,569 | 3,865 | 7,351 | 1,960 | 5,873 | 2,652 | 707 |
| Finance costs | (2,090) | (2,959) | (6,026)[2] | (1,607)[2] | (4,402) | (6,906) | (1,842) |
| **Income before income taxes and zakat** | **581,438** | **797,896** | **666,741** | **177,798** | **512,101** | **270,314** | **72,083** |
| Income taxes and zakat[3] | (296,819) | (381,378) | (336,048) | (89,613) | (256,391) | (139,006) | (37,068) |
| **Net income** | **284,619** | **416,518** | **330,693** | **88,185** | **255,710** | **131,308** | **35,015** |
| **Net income/(loss) attributable to:** | | | | | | | |
| Shareholder's equity | 283,198 | 416,196 | 330,816 | 88,218 | 255,805 | 133,180 | 35,514 |
| Non-controlling interests | 1,421 | 322 | (123) | (33) | (95) | (1,872) | (499) |
| | **284,619** | **416,518** | **330,693** | **88,185** | **255,710** | **131,308** | **35,015** |

(1) Amounts for 2018 do not reflect the reclassification of SAR 12,239 million of purchases reclassified to revenue that were made to the 2018 comparative amounts reflected in the 2019 Financial Statements. Saudi Aramco estimates that a similar reclassification of certain purchases to revenue would have been made for 2017 and is not reflected in the amounts for 2017 above.

(2) Saudi Aramco adopted IFRS 16 on 1 January 2019 using a modified retrospective approach. As a result, in the preparation of the 2019 Financial Statements, Saudi Aramco applied prospectively, starting 1 January 2019, the new classification and measurement models for lease contracts and consequently 2018 and prior period comparative information was not restated. For further information on the impact of IFRS 16 on Saudi Aramco's financial statements, see page F-17.

(3) Effective 1 January 2020, the tax rate applicable to Saudi Aramco's downstream activities is the general corporate tax rate of 20% that applies to all similar domestic downstream companies under the Income Tax Law. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

### Comparison of Nine Months Ended 30 September 2020 and Nine Months Ended 30 September 2019

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

For the nine months ended 30 September 2020 and 2019, Saudi Aramco's revenue and other income related to sales was SAR 618.3 billion ($164.9 billion) and SAR 924.6 billion, respectively. This 33% decrease was primarily attributable to lower average realised prices per barrel of crude oil (from $64.8 in 2019 to $39.4 in 2020) and refined products as well as a decrease in volumes sold of crude oil, partially offset by the consolidation of SABIC's revenue into Saudi Aramco's financial statements from 16 June 2020 and a higher other income related to sales for gas products. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Supply, Demand and Price for Hydrocarbons*" and "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

*Upstream*

For the nine months ended 30 September 2020 and 2019, the upstream segment's external revenue was SAR 307.8 billion ($82.1 billion) and SAR 533.1 billion, respectively. This 42% decrease was primarily due to lower average realised sales prices per barrel of crude oil to $39.4 from $64.8, or 39%. For the periods ended 30 September 2020 and 2019, the upstream segment's other income related to sales was SAR 30.1 billion ($8.0 billion) and SAR 26.2 billion, respectively. This 15% increase was primarily due to the inclusion of gas, LPGs and certain other products in the price equalisation mechanisms, which impacted Saudi Aramco's financial position and results of operations beginning on 1 January 2020. This increase was partially offset by a decrease in the reference equalisation price for crude oil. See "*—Revenue and Other Income Related to Sales*" and "*—Royalties and Other Taxes*".

*Downstream*

For the nine months ended 30 September 2020 and 2019, the downstream segment's external revenue was SAR 240.0 billion ($64.0 billion) and SAR 288.2 billion, respectively. This 17% decrease was primarily due to lower prices of refined products, partially offset by the consolidation of SABIC's results of operations into Saudi Aramco's financial statements from 16 June 2020, and an increase in crude oil trading volumes. For the periods ended 30 September 2020 and 2019, the downstream segment's other income related to sales was SAR 39.3 billion ($10.5 billion) and SAR 76.3 billion, respectively. This 48% decrease was primarily due to lower reference equalisation prices and a decrease in the volumes of refined products sold in the Kingdom.

*Corporate*

For the nine months ended 30 September 2020 and 2019, the Corporate segment's external revenue was SAR 1.0 billion ($0.3 billion) and SAR 0.9 billion, respectively. The corporate segment primarily supports the upstream segment's and downstream segment's activities and has limited external activities.

#### *Royalties and Other Taxes*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco recorded royalties and other taxes of SAR 67.1 billion ($17.9 billion) and SAR 138.0 billion, respectively. This 51% decrease was primarily due to lower crude oil prices and volumes sold as well as a decrease in the baseline royalty rate from 20% to 15%. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*" and "*Business—Relationship with the Kingdom—The Concession*".

#### *Purchases*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco made purchases of SAR 126.3 billion ($33.7 billion) and SAR 163.2 billion, respectively. This 23% decrease was primarily due to lower prices of crude oil and refined products, partially offset by the consolidation of SABIC's purchases into Saudi Aramco's financial statements from 16 June 2020.

### *Producing and Manufacturing*

For the nine months ended 30 September 2020 and 2019, producing and manufacturing expenses were SAR 56.7 billion ($15.1 billion) and SAR 42.2 billion, respectively. This 34% increase was primarily due to the consolidation of SABIC's results of operations into Saudi Aramco's financial statements from 16 June 2020.

### *Selling, Administrative and General*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco incurred selling, administrative and general expenses of SAR 29.2 billion ($7.8 billion) and SAR 24.1 billion, respectively. This 21% increase was primarily due the consolidation of SABIC's results of operations into Saudi Aramco's financial statements from 16 June 2020.

### *Exploration*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco incurred exploration expenses of SAR 6.3 billion ($1.7 billion) and SAR 5.4 billion, respectively. This 16% increase was primarily due to an increase in write-offs of dry-hole costs.

### *Research and Development*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco incurred research and development expenses of SAR 1.8 billion ($0.5 billion) and SAR 1.4 billion, respectively.

### *Depreciation and Amortisation*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco recognised depreciation and amortisation expenses of SAR 52.1 billion ($13.9 billion) and SAR 37.3 billion, respectively. This 40% increase was primarily attributable to depreciation incurred on additional assets capitalised during the period from 1 October 2019 to 30 September 2020 and the consolidation of SABIC's assets into Saudi Aramco's financial statements from 16 June 2020. Additionally, for the 12 months ended 30 September 2020, Saudi Aramco recognised depreciation and amortisation expenses of SAR 65.1 billion ($17.4 billion).

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

Saudi Aramco's share of results of joint ventures and associates was a loss of SAR 4.3 billion ($1.1 billion) and SAR 2.4 billion in its share of results of joint ventures and associates for the nine months ended 30 September 2020 and 2019, respectively. This 76% increase in loss is primarily due to higher losses incurred by Petro Rabigh.

### *Finance and Other Income*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco had finance and other income of SAR 2.7 billion ($0.7 billion) and SAR 5.9 billion, respectively. This 55% decrease was primarily due to a decrease in time deposits and short-term investments, which resulted in lower interest income, and the absence of a gain recognised in 2019 following the re-measurement of SASREF's investment at fair value following the increase in Saudi Aramco's ownership interest in SASREF.

### *Finance Costs*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco incurred finance costs of SAR 6.9 billion ($1.8 billion) and SAR 4.4 billion, respectively. This 57% increase was primarily due to additional interest incurred by Saudi Aramco following the April 2019 issuance of the Senior Unsecured Notes and in connection with the deferred consideration related to the acquisition of a 70% equity interest in SABIC.

### *Income Taxes and Zakat*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco incurred income taxes and zakat expenses of SAR 139.0 billion ($37.1 billion) and SAR 256.4 billion, respectively. This 46% decrease was primarily attributable to a decrease in income.

### *Net Income*

For the nine months ended 30 September 2020 and 2019, Saudi Aramco's net income was SAR 131.3 billion ($35.0 billion) and SAR 255.7 billion, respectively. This 49% decrease was primarily due to lower crude oil prices and volumes sold, and reduced refining and chemicals margins. The decrease was partially offset by lower income taxes and zakat, the favourable impact of lower crude oil production royalties, and higher other income related to sales for gas products.

## Comparison of Fiscal Year Ended 31 December 2019, Fiscal Year Ended 31 December 2018 and Fiscal Year Ended 31 December 2017

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

For the years ended 31 December 2019 and 2018, Saudi Aramco's revenue and other income related to sales was SAR 1,236.8 billion ($329.8 billion) and SAR 1,334.8 billion, respectively. This 7% decrease was primarily attributable to a decrease in the average realised prices per barrel of crude oil sold at prevailing market prices from $70.0 for the year ended 31 December 2018 to $64.6 for the year ended 31 December 2019 as well as a decrease in other income related to sales, partially offset by a marginal increase in crude oil sales volumes.

Other income related to sales in 2019 decreased by 14% from 2018 primarily attributable to a reduction in equalisation prices following the reduction in prevailing market prices. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

For the years ended 31 December 2018 and 2017, Saudi Aramco's revenue and other income related to sales was SAR 1,334.8 billion and SAR 990.7 billion, respectively. This 35% increase was primarily attributable to an increase in the average realised price per barrel of crude oil to $70.0 from $52.7, the full year impact of consolidating Motiva's results of operations, as well as an increase in other income related to sales. The volume of crude oil produced by Saudi Aramco 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 increased by 2% when compared with 2017 primarily due to an increase in the equalisation prices of crude oil and refined products, partially offset by lower volumes of certain refined products sold in the Kingdom. This led to Saudi Aramco recording other income related to sales of SAR 152.6 billion for the year ended 31 December 2018. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

<u>Upstream</u>

For the years ended 31 December 2019 and 2018, the upstream segment's external revenue was SAR 709.3 billion ($189.1 billion) and SAR 776.2 billion, respectively. This 9% decrease was primarily due to lower crude oil sales volumes, in line with lower upstream crude oil production compared to prior year, and a decrease in average realised sales prices per barrel of crude oil from $70.0 to $64.6, or 8%. For the years ended 31 December 2018 and 2017, the upstream segment's external revenue was SAR 776.2 billion and SAR 574.0 billion, respectively. This 35% increase was primarily due to an increase in average realised sales price per barrel of crude oil to $70.0 from $52.8, or 33%. For the years ended 31 December 2019 and 2018, the upstream segment's other income related to sales was SAR 34.4 billion ($9.2 billion) and SAR 37.2 billion, respectively. This 7% decrease was primarily due to a decrease in the reference equalisation price for crude oil. For the years ended 31 December 2018 and 2017, the upstream segment's other income related to sales was SAR 37.2 billion and SAR 29.1 billion, respectively. This 28% increase was primarily due to an increase in the equalisation price for crude oil. See "*—Revenue and Other Income Related to Sales*" and "*—Royalties and Other Taxes*".

<u>Downstream</u>

For the years ended 31 December 2019 and 2018, the downstream segment's external revenue was SAR 395.1 billion ($105.4 billion) and SAR 404.6 billion, respectively. This 2% decrease was primarily due to a reduction in the average price of refined products, partially offset by the consolidation of ARLANXEO's results of operations into Saudi Aramco's financial statements from 1 January 2019 and an increase in international crude sales reported in the downstream segment attributed to ATC and Motiva. For the years ended 31 December 2018 and 2017, the downstream segment's external revenue was SAR 404.6 billion and SAR 265.3 billion, respectively. This 53% increase was primarily due to an increase in average refined product prices, consolidation of Motiva's results in Saudi Aramco'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 2019 and 2018, the downstream segment's other income related to sales was SAR 96.6 billion ($25.8 billion) and SAR 115.5 billion, respectively. This 16% decrease was primarily due to a decrease in the reference equalisation prices for refined products. For the years ended 31 December 2018 and 2017, the downstream segment's other income related to sales was SAR 115.5 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%.

<u>*Corporate*</u>

For the years ended 31 December 2017, 2018 and 2019, the Corporate segment's external revenue was SAR 1,210 million, SAR 1,329 million and SAR 1,347 million ($359 million), respectively. The corporate segment primarily supports the upstream segment's and downstream segment's activities and has limited external activities.

***Royalties and Other Taxes***

For the years ended 31 December 2019 and 2018, Saudi Aramco recorded royalties and other taxes of SAR 182.1 billion ($48.6 billion) and SAR 208.5 billion, respectively. This 13% decrease was primarily due to a decrease in crude oil prices, the average effective royalty rate and crude volumes produced and sold by the upstream segment. For the years ended 31 December 2018 and 2017, Saudi Aramco recorded royalties and other taxes of SAR 208.5 billion and SAR 140.9 billion, respectively. This 48% increase was primarily due to the impact of a higher applicable royalty rate applied to Saudi Aramco's crude oil production after Brent prices increased to over $70.0 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. See "*—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*" and "*Business—Relationship with the Kingdom—The Concession*".

***Purchases***

For the years ended 31 December 2019 and 2018, Saudi Aramco made purchases of SAR 225.2 billion ($60.0 billion) and SAR 188.9 billion, respectively. This 19% increase was primarily attributable to an increase in purchase volumes of crude oil from third parties by Motiva and ATC, an increase in purchases of refined products resulting from the consolidation of ARLANXEO into Saudi Aramco's financial statements from 1 January 2019 and an increase in purchases of additional chemical products by Aramco Chemicals Company. This increase was partially offset by a decline in prevailing market prices of crude oil and refined products as well as a decrease in the volumes of refined products purchased by Saudi Aramco.

For the years ended 31 December 2018 and 2017, Saudi Aramco made purchases of SAR 188.9 billion and SAR 126.1 billion, respectively. This 50% 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 and the consolidation of Motiva's full-year results. Purchases by ATC increased to SAR 66.9 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, Saudi Aramco's purchases increased to 14% for the year ended 31 December 2018 from 13 % for the year ended 31 December 2017.

***Producing and Manufacturing***

For the years ended 31 December 2019 and 2018, producing and manufacturing expenses were SAR 58.2 billion ($15.5 billion) and SAR 56.2 billion, respectively. This 4% increase was primarily due to ARLANXEO being consolidated into Saudi Aramco's financial statements from 1 January 2019, partially offset by a decline in operating lease costs due to the reclassification of such costs to depreciation and amortisation and finance costs following the implementation of IFRS 16 from 1 January 2019. As a percentage of revenue and other income related to sales, Saudi Aramco's producing and manufacturing expenses increased from 4% for the year ended 31 December 2018 to 5% for the year ended 31 December 2019.

For the years ended 31 December 2018 and 2017, producing and manufacturing expenses were SAR 56.2 billion and SAR 57.0 billion, respectively.

***Selling, Administrative and General***

For the years ended 31 December 2019 and 2018, Saudi Aramco incurred selling, administrative and general expenses of SAR 36.6 billion ($9.8 billion) and SAR 31.3 billion, respectively. This 17% increase was primarily attributable to ARLANXEO being consolidated into Saudi Aramco's financial statements from 1 January 2019 and an increase in ATC's selling, administrative and general expenses.

For the years ended 31 December 2018 and 2017, Saudi Aramco incurred selling, administrative and general expenses of SAR 31.3 billion and SAR 31.0 billion, respectively.

***Exploration***

For the years ended 31 December 2019 and 2018, Saudi Aramco incurred exploration expenses of SAR 7.3 billion ($1.9 billion) and SAR 7.9 billion, respectively. This 8% decrease was primarily due to lower geological and geophysical survey costs during the year ended 31 December 2019, partially offset by an increase in write-offs of dry-hole costs related to gas exploration activities.

For the years ended 31 December 2018 and 2017, exploration expenses decreased by 42% to SAR 7.9 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.

***Research and Development***

For the years ended 31 December 2019 and 2018, Saudi Aramco incurred research and development expenses of SAR 2,150 million ($573 million) and SAR 2,217 million, respectively.

For the years ended 31 December 2018 and 2017, Saudi Aramco incurred research and development expenses of SAR 2,217 million and SAR 1,902 million, respectively.

***Depreciation and Amortisation***

For the years ended 31 December 2019 and 2018, Saudi Aramco recognised depreciation and amortisation expenses of SAR 50.3 billion ($13.4 billion) and SAR 41.3 billion, respectively. This 22% increase was primarily attributable to depreciation incurred on additional assets capitalised in the period, the consolidation of ARLANXEO's results of operations into Saudi Aramco's financial statements from 1 January 2019 and the adoption of IFRS 16, which resulted in right of use assets being recognised on the balance sheet and therefore subject to depreciation.

For the years ended 31 December 2018 and 2017, Saudi Aramco recognised depreciation and amortisation expenses of SAR 41.3 billion and SAR 37.2 billion, respectively. This 11% increase was primarily attributable to an increase in capitalised costs related to upstream projects that were completed in 2018.

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

Saudi Aramco had a loss of SAR 9,455 million ($2,521 million) and SAR 1,415 million in its share results from joint ventures and associates for the years ended 31 December 2019 and 2018, respectively. The increase in loss was primarily due to Saudi Aramco's share of an impairment charge recognised by Sadara of SAR 5,996 million ($1,599 million), in addition to lower earnings at Petro Rabigh, Marafiq and FREP.

Saudi Aramco had a loss of SAR 1,415 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 the full year impact of the share of Motiva's profits no longer being accounted for using the equity method and lower earnings from FREP, partially offset by improved financial performance at Sadara and Petro Rabigh.

***Finance and Other Income***

For the years ended 31 December 2019 and 2018, Saudi Aramco had finance and other income of SAR 7,351 million ($1,960 million) and SAR 3,865 million, respectively. This 90% increase was primarily attributable to an increase in time deposits and short-term investments, mainly due to the investment of cash receipts following the issuance of Senior Unsecured Notes in April 2019, resulting in an increase in interest income and an accounting gain of SAR 1,278 million ($341 million) following the de-recognition of the previous equity investment in SASREF.

For the years ended 31 December 2018 and 2017, Saudi Aramco had finance and other income of SAR 3,865 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 and an accounting gain of SAR 870 million following the de-recognition of a prior equity investment in ARLANXEO.

***Finance Costs***

For the years ended 31 December 2019 and 2018, Saudi Aramco incurred finance costs of SAR 6,026 million ($1,607 million) and SAR 2,959 million, respectively. This 104% increase was primarily due to additional interest incurred by Saudi Aramco following the issuance of the Senior Unsecured Notes and the impact of additional interest expense being charged following the adoption of IFRS 16.

For the years ended 31 December 2018 and 2017, Saudi Aramco incurred finance costs of SAR 2,959 million and SAR 2,090 million, respectively. This 42% increase was primarily due to the consolidation of Motiva's results of operations into Saudi Aramco's financial statements for the full financial year as well as increased borrowing costs on certain bank borrowings, including additional project finance borrowings.

***Income Taxes***

For the years ended 31 December 2019 and 2018, Saudi Aramco incurred income tax expenses of SAR 336.0 billion ($89.6 billion) and SAR 381.4 billion, respectively, a decrease of SAR 45.3 billion or 12%. This decrease was primarily attributable to the lower level of profit in 2019, partially offset by the deferred tax impact of the fiscal regime changes in both years.

For the years ended 31 December 2018 and 2017, Saudi Aramco incurred income tax expenses of SAR 381.4 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 Saudi Aramco's natural gas activities.

***Net Income***

For the years ended 31 December 2019 and 2018, Saudi Aramco's net income was SAR 330.7 billion ($88.2 billion) and SAR 416.5 billion, respectively. This 21% decrease was primarily due to lower crude oil prices, declining refining and chemical margins, and an increase in Saudi Aramco's share of losses of joint ventures and associates, primarily due to an impairment charge recognised by Sadara.

For the years ended 31 December 2018 and 2017, Saudi Aramco's net income was SAR 416.5 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.

### Liquidity and Capital Resources

The following table sets forth Saudi Aramco's cash flow for the years ended 31 December 2017, 2018 and 2019, the nine months ended 30 September 2019 and the nine months and 12 months ended 30 September 2020:

| | Year Ended 31 December | | | | Nine Months Ended 30 September | | | 12 Months Ended 30 September | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 | 2020 | 2020 |
| | SAR | SAR | SAR | U.S.$ | SAR | SAR | U.S.$ | SAR[(1)] | U.S.$ |
| **Net cash provided by/(used in):** | | | | | *(in millions)* | | | | |
| Operating activities... | 333,607 | 453,701 | 416,529 | 111,074 | 304,331 | 200,858 | 53,561 | 313,056 | 83,482 |
| Investing activities.... | (118,629) | (131,205) | (177,144) | (47,239) | (128,415) | 4,892 | 1,305 | (43,837) | (11,690) |
| Financing activities... | (181,811) | (220,586) | (244,831) | (65,288) | (187,226) | (185,807) | (49,548) | (243,412) | (64,910) |

(1) Calculated as the sum of nine months ended 30 September 2020 and year ended 31 December 2019 less nine months ended 30 September 2019.

Saudi Aramco primarily funds its operations with cash generated from operating activities. Saudi Aramco'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.

Saudi Aramco's future capital requirements will depend on many factors, including the capacity expansion of the MGS and expansion of its downstream operations. Additionally, payments in connection with the acquisition of a 70% equity interest in SABIC could have an impact on Saudi Aramco's future capital requirements. For further information on Saudi Aramco's acquisition of the equity interest in SABIC and the payments in connection therewith, see "*Business—Operating Segments—Downstream—Acquisition of 70% Equity Interest in SABIC* ".

#### *Cash Provided by Operating Activities*

Saudi Aramco's cash flow is primarily generated from its operations. Net cash provided by operating activities for the year ended 31 December 2019 amounted to SAR 416.5 billion ($111.1 billion) as compared to SAR 453.7 billion for the year ended 31 December 2018 and SAR 333.6 billion for the year ended 31 December 2017. The 8% decrease from 2018 to 2019 primarily reflects the impact of a lower oil price environment, partially offset by favourable movements in working capital, lower payments for income and other taxes and the change in classification of lease rentals to financing activities upon the adoption of IFRS 16. 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. 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.

Net cash provided by operating activities for the nine months ended 30 September 2020 amounted to SAR 200.9 billion ($53.6 billion) as compared to SAR 304.3 billion for the nine months ended 30 September 2019. This 34% decrease was primarily due to lower earnings, mainly resulting from lower crude oil prices and volumes sold and weaker refining and chemicals margins. This was partially offset by a decrease in settlement of taxes and zakat and cash released from working capital changes.

#### *Cash Used in Investing Activities*

Net cash used in investing activities amounted to SAR 177.1 billion ($47.2 billion) for the year ended 31 December 2019 as compared to SAR 131.2 billion for the year ended 31 December 2018 and SAR 118.6 billion for the year ended 31 December 2017. The 35% increase from 2018 to 2019 was primarily due to the investment of cash receipts following the issuance of the SAR 45.0 billion ($12.0 billion) of Senior Unsecured Notes, in addition to an increase in cash paid for acquisitions, including Saudi Aramco's acquisition of the 50% share of SASREF from Shell that it did not already own, the acquisition of a 17% equity interest in Hyundai Oilbank and the acquisition of 100% of the equity interest in Motiva Chemical. This increase was partially offset by a decrease in capital expenditures. The 11% increase from 2017 to 2018 was primarily due to an increase in capital expenditures.

Net cash provided by investing activities for the nine months ended 30 September 2020 amounted to SAR 4.9 billion ($1.3 billion) as compared to net cash used by investing activities of SAR 128.4 billion for the nine months ended 30 September 2019. This 104% increase was primarily due to the consolidation of cash acquired following completion of the acquisition of a 70% equity interest in SABIC in June 2020, maturities of short term investments and lower capital expenditures resulting from the implementation of capital spending optimisation and efficiency programmes.

*Capital Expenditures*

The following table sets forth Saudi Aramco's capital expenditures for each of its business segments for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020:

| | **Year Ended 31 December** | | | | **Nine Months Ended 30 September** | | |
|---|---|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2019** | **2019** | **2020** | **2020** |
| | **SAR** | **SAR** | **SAR** | **U.S.$** | **SAR** | **SAR** | **U.S.$** |
| | | | | *(in millions)* | | | |
| Upstream[(1)] | 82,508 | 96,768 | 93,927 | 25,047 | 65,226 | 56,898 | 15,173 |
| Downstream | 35,569 | 32,677 | 26,696 | 7,119 | 18,007 | 17,184 | 4,582 |
| Corporate | 3,878 | 2,321 | 2,259 | 602 | 1,382 | 1,024 | 273 |
| **Total** | **121,955** | **131,766** | **122,882** | **32,769** | 84,615 | 75,106 | 20,028 |

(1) Includes exploration capital expenditures of SAR 7,735 million, SAR 9,034 million, SAR 9,685 million ($2,583 million) and SAR 6,006 million ($1,601 million) for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively, and development capital expenditures of SAR 38,643 million, SAR 38,944 million, and SAR 42,834 million ($11,423 million) and SAR 28,537 million ($7,610 million) for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively.

Saudi Aramco's capital expenditures were SAR 122.9 billion ($32.8 billion) for the year ended 31 December 2019, SAR 131.8 billion for the year ended 31 December 2018 and SAR 122.0 billion for the year ended 31 December 2017. The 7% decrease from 31 December 2018 to 31 December 2019 was primarily due to the completion of the S-Oil upgrade and reduced spending on the Jazan Refinery Complex, Fadhili Gas Plant and MGS Phase II as they approached completion. This was partially offset by higher spending at PRefChem and Motiva as well as an increase in upstream capital projects to maintain and expand productions. 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. Saudi Aramco's capital expenditures for the nine months ended 30 September 2020 amounted to SAR 75.1 billion ($20.0 billion) as compared to SAR 84.6 billion for the nine months ended 30 September 2019. This 11% decrease was primarily due to the implementation of capital spending optimisation and efficiency programmes in response to the current economic environment. Saudi Aramco'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. Saudi Aramco's current capital investment programme, in the downstream segment, includes the capacity expansion of the MGS to meet growing domestic demand for natural gas and, in the upstream segment, includes Saudi Aramco's upstream exploratory and development drilling campaigns. Saudi Aramco had committed capital expenditures as at 31 December 2019 of SAR 154.2 billion and had previously expected capital expenditures to be between $35.0 billion and $40.0 billion for the year ending 31 December 2020, which includes capital expenditures expected to be incurred by SABIC, however, the economic impact of COVID-19 and other factors impacting oil demand and pricing have led Saudi Aramco to reduce its planned capital expenditures for 2020. Capital expenditures are now expected to be between $25.0 billion and $30.0 billion for the year ending 31 December 2020, which includes capital expenditures expected to be incurred by SABIC. This compares to $35.1 billion and $32.8 billion for the years ended 31 December 2018 and 2019, respectively, which amounts do not include capital expenditures incurred by SABIC. Saudi Aramco is also reviewing its capital expenditure programme for 2021. See "*Risk Factors—Risks related to Saudi Aramco, its Operations and Industry—Saudi Aramco's ability to achieve its strategic growth objectives depends on the successful delivery of current and future projects*" and "*Risk Factors—Risks Related to Macro-Economic Environment and External Factors—The outbreak of COVID-19 and its impact on business and* *economic conditions could negatively affect Saudi Aramco's business, financial position, cash flow, results of operations and price of its securities*".

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

Net cash used in financing activities amounted to SAR 244.8 billion ($65.3 billion) for the year ended 31 December 2019, as compared to net cash used in financing activities of SAR 220.6 billion for the year ended 31 December 2018 and to net cash used in financing activities of SAR 181.8 billion for the year ended 31 December 2017. The 11% increase in cash used in financing activities from 31 December 2018 to 31 December 2019 was primarily due to higher dividends and distributions paid in 2019 of SAR 274.4 billion ($73.2 billion) compared to SAR 217.5 billion in 2018, an increase of SAR 56.9 billion ($15.2 billion). In addition, repayments of borrowings and interest paid increased by 35% following the reclassification of certain cash flows from operating activities to financing activities upon the adoption of IFRS 16, and further, Saudi Aramco purchased treasury shares of SAR 3.75 billion ($1.0 billion) from the Government following Saudi Aramco's initial public offering. The increase in cash used was partially offset by the proceeds from the issuance of Senior Unsecured Notes. The change in net cash used in financing activities from 2017 to 2018 was primarily due to an increase of SAR 29.7 billion in dividends and distributions made to the Government. See Note 23(a) to the 2018 Financial Statements.

Net cash used in financing activities for the nine months ended 30 September 2020 amounted to SAR 185.8 billion ($49.5 billion) as compared to SAR 187.2 billion for the nine months ended 30 September 2019. This decrease primarily reflects lower dividends paid, which was offset by an increase in borrowing repayments mainly relating to the deferred consideration due to the PIF on the acquisition of a 70% equity interest in SABIC.

*Dividends and Distributions*

In accordance with the Issuer's dividend policy, the Issuer's Board of Directors intends to declare regular and interim dividends at any time at its discretion, as well as specifying the amount or percentage of net profit to be distributed as dividends. For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, Saudi Aramco's dividend payments totalled SAR 187.8 billion, SAR 217.5 billion, SAR 274.4 billion ($73.2 billion) and SAR 190.9 billion ($50.9 billion), respectively.

Royal Order No. A/42, dated 26/1/1441 in the Hijri calendar (corresponding to 25 September 2019) provides that, to the extent that the Board of Directors determines that the amount of any quarterly cash dividend declared with respect to calendar years 2020 through 2024 would have been less than $0.09375 per ordinary share (based on 200,000,000,000 ordinary shares outstanding) but for the Government forgoing its rights to such dividend as follows, the Government will forgo its right to receive the portion of cash dividends on its ordinary shares equal to the amount necessary to enable the Issuer to first pay the minimum quarterly cash dividend amount described above to holders of ordinary shares other than the Government. The remaining amount of the declared dividend as determined by the Board of Directors in its discretion will be paid to the Government. In addition, dividends forgone will not accrue or otherwise be paid to the Government and the waiver applies to all ordinary shares not held by the Government from time to time and held from 2020 to 2024.

***Liquidity***

Saudi Aramco 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. Saudi Aramco currently has access to a revolving credit facility and its Sukuk Programme. Certain of Saudi Aramco's subsidiaries also have entered into and have access to credit facilities, sukuk or other financing.

As at 31 December 2019, Saudi Aramco had a total of SAR 92.7 billion ($24.7 billion) of undrawn amounts from SAR 176.4 billion ($47.0 billion) in total borrowing financing arrangements. Cash that may be temporarily available as surplus to Saudi Aramco's immediate needs is carefully managed based on counterparty quality and investment guidelines to ensure it is secure and readily available to meet Saudi Aramco's cash requirements.

*Revolving Credit Facilities*

On 26 March 2015, the Issuer entered into revolving credit facilities with various financial institutions for up to $10.0 billion in aggregate commitments, which includes both conventional and Shari'ah compliant Murabaha facilities. The facilities comprise a $6.0 billion five-year conventional revolving credit facility, a $1.0 billion one-year conventional revolving credit facility, a SAR 7.5 billion five-year Murabaha facility and a SAR 3.75 billion one-year Murabaha facility. The facilities provide for certain limits on the creation of liens and other security interests over the assets of the Issuer, and on the sale, lease or transfer, of all or substantially all 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 each facility, the Issuer has exercised two one-year extension options under both facilities extending the five-year facilities to seven years. The facilities are therefore available until one month before the maturity date of 26 March 2022. As at 31 December 2019, there was an unused balance of SAR 37.5 billion ($10.0 billion) on the Issuer's revolving credit facilities.

On 9 June 2020, the Issuer amended and restated certain agreements with respect to its $6.0 billion five-year conventional revolving credit facility to incorporate a $2.0 billion swingline sub-facility in support of the Issuer's establishment of a U.S. commercial paper programme. As at 30 September 2020, no debt has been issued under the Issuer's U.S. commercial paper programme.

*Term Loan Facility*

On 7 May 2020, the Issuer entered into a $10.0 billion one-year term loan facility with various financial institutions. The facility provides for certain limits on the sale, lease, or transfer of all or substantially all of its assets. The one-year term loan facility currently terminates on 6 May 2021, but the Issuer has the option to extend the termination date by up to 364 days from 6 May 2021. As at 30 September 2020, the facility was fully utilised with an outstanding balance of $10.0 billion.

*Sukuk Programme*

On 10 April 2017, SAR 11.3 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.

*GMTN Programme*

On 1 April 2019, the Issuer established a global medium term note programme (the "**GMTN Programme**") pursuant to which it may from time to time issue notes. On 16 April 2019, the Issuer issued $12.0 billion in aggregate principal amount of senior unsecured notes under the GMTN Programme comprising five tranches, all of which are payable semi-annually in arrear: $1.0 billion 2.750% senior notes due 2022; $2.0 billion 2.875% senior notes due 2024; $3.0 billion 3.500% senior notes due 2029; $3.0 billion 4.250% senior notes due 2039 and $3.0 billion 4.375% senior notes due 2049 (collectively, the "**Senior Unsecured Notes**"). Interest is payable semi-annually on 16 April and 16 October. After deducting fees and expenses related to the Senior Unsecured Notes, the Issuer's net proceeds were $11.9 billion. The Senior Unsecured Notes constitute direct obligations of the Issuer and are not guaranteed.

### Contractual Obligations

The following table sets forth Saudi Aramco's contractual obligations as at 31 December 2019:

| | Payments Due Per Period | | | |
|---|---|---|---|---|
| | Less than 1 year | 1 – 5 years | More than 5 years | Total SAR |
| | SAR | SAR | SAR | SAR |
| | | (in millions) | | |
| Long-term borrowings and debentures[1] | 8,165 | 51,383 | 104,202 | 163,750 |
| Finance leases[2] | 8,405 | 21,867 | 30,067 | 60,339 |
| Purchase obligations | 78,231 | - | - | 78,231 |
| Decommissioning liabilities | 67 | 1,453 | 12,196 | 13,716 |
| Environmental liabilities | 431 | 506 | - | 937 |
| **Total** | **95,299** | **75,209** | **146,465** | **316,973** |

(1) Maturities at contractual value of long-term borrowings and debentures, including interest payments due under such instruments. Long-term borrowings and debentures does not include amounts owed to the PIF due to Saudi Aramco's acquisition of a 70% equity interest in SABIC. For further information regarding payments in connection with the acquisition, see "*Business—Operating Segments—Downstream—Acquisition of 70% Equity Interest in SABIC*".

(2) Following the adoption of IFRS 16 in January 2019, all operating leases are reclassified as finance leases, with the exception of short term leases and low-value leases.

Saudi Aramco's off-balance sheet arrangements primarily relate to commitments and contingencies under guarantees issued by Saudi Aramco in connection with financing arrangements at Sadara and Petro Rabigh.

Saudi Aramco previously entered into a guarantee of 65% (Saudi Aramco's ownership interest percentage in Sadara) of the senior debt amounts owed by Sadara to its credit providers. As at 31 December 2019, the amount guaranteed by Saudi Aramco was SAR 26.3 billion ($7.0 billion). This guarantee terminates on the project completion date, which is expected to occur before 31 December 2020. Sadara is in the process of engaging with its lenders regarding the restructuring of its current financing. The Company may agree to certain new obligations with respect to such restructured financing.

In connection with Petro Rabigh, in March 2015, Saudi Aramco 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 was released on 30 September 2020, the completion date of the Rabigh II Project. Concurrently with the guarantee release, a debt service undertaking was provided by Saudi Aramco and Sumitomo to cover any shortfalls in scheduled debt service related to the Rabigh II Project until at least 50% of the shareholder guaranteed SAR 11.3 billion equity bridge loans are repaid using share capital or shareholder-funded subordinated loans. The equity bridge loans were due to be repaid on 1 October 2020 but were extended to 1 October 2022. As at 30 September 2020, the debt service undertaking has not been utilised. In addition to the debt service undertaking, Saudi Aramco and Sumitomo provided Petro Rabigh with revolving facilities of up to SAR 7.5 billion. Saudi Aramco's share of the revolving facilities is SAR 4.7 billion of which Petro Rabigh utilised SAR 2.8 billion on 8 October 2020. The revolving facilities are scheduled to mature in September 2023 but may be extended subject to certain conditions.

### Quantitative and Qualitative Disclosure About Market Risk

#### *General*

Saudi Aramco 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*

Saudi Aramco 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. Saudi Aramco 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***

Saudi Aramco 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 Saudi Aramco 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. Saudi Aramco'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 Saudi Aramco's indebtedness and operating expenses are, and Saudi Aramco 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 Saudi Aramco 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. Saudi Aramco hedges significant transactions that are not based in its functional currency.

***Interest Rate Risk***

Saudi Aramco is exposed to interest rate risk from long-term borrowings which are issued at variable and fixed rates. Saudi Aramco's income and operating cash flows are not subject to interest rate risks because they are substantially independent of changes in the market as Saudi Aramco'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. Saudi Aramco is exposed to fair value interest rate risk for borrowings issued at fixed rates.

***Securities Price Risk***

Saudi Aramco is exposed to a limited amount of risk arising from investments in securities carried out at fair value. Saudi Aramco regularly reviews its positions in investment in securities considering current and expected future economic trends.

**Summary of Significant Accounting Policies**

The 2018 Financial Statements and 2019 Financial Statements were prepared in accordance with IFRS. The 2020 Nine Month Interim Period Financial Statements were prepared in accordance with IAS 34. Below is a summary of significant accounting policies applied by Saudi Aramco in preparing the Financial Statements:

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

*Subsidiaries*

The Financial Statements reflect the assets, liabilities and operations of Saudi Aramco and its subsidiaries. Subsidiaries are entities over which Saudi Aramco has control. Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco.

The acquisition method of accounting is used to account for business combinations. Acquisition related costs are expensed as incurred. The cost of the acquisition of a subsidiary is measured as the fair value of the assets transferred liabilities incurred to the former owners of the acquired business, equity interests issued by the group, the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. 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 and the amount of any non-controlling interest in the acquired entity over the fair value of the acquired 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.

Saudi Aramco recognises 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 recognised in net income.

*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 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.

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 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.

Saudi Aramco's share of results of 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 Saudi Aramco's investments in joint ventures, which is presented separately in Saudi Aramco's 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 recognise 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 realised 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 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 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 recognised at cost. The accounting policies for joint ventures detailed above are also applied by Saudi Aramco to its associates.

(1) 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 non-wholly owned 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, 36 and 37 to the 2019 Financial Statements.

***Intangible Assets***

Intangible assets, other than exploration and evaluation costs, consist primarily of brands and trademarks, franchise/customer relationships and computer software. See Note 2(f) to the 2019 Financial Statements. 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 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 15 |

Amortisation is recorded in depreciation and amortisation in Saudi Aramco'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 Saudi Aramco's consolidated balance sheet as an intangible asset until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found, these costs continue to be capitalised, subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found, and no alternative use of the well is determined, the previously capitalised costs are written off to exploration in Saudi Aramco's consolidated statement of income.

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 exploration in Saudi Aramco's consolidated statement of 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 Saudi Aramco'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 Saudi Aramco 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. See Note 2(u) to the 2019 Financial Statements.

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 Saudi Aramco'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 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 or, the lease term, if shorter, for right-of-use assets, 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***

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 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, refining or petrochemical 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 and chemical prices, expected production volumes, future operating and development costs, refining and petrochemical 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***

Saudi Aramco's portfolio of leased assets mainly comprises drilling rigs, marine vessels, industrial facilities, equipment, aircraft and vehicles. The determination of whether the contract is, or contains, a lease is based on the substance of the contract at the inception of the lease. 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.

Saudi Aramco recognises right-of-use assets and lease liabilities at the lease commencement date. Right-of-use assets are initially measured at cost, which comprises lease liabilities at initial measurement, any initial direct costs incurred, any lease payments made at or before the commencement date, and restoration costs less any lease incentives received. Subsequent to initial recognition the right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset by the end of the lease term or if the cost of the asset reflects the exercise of the purchase option, in which case right of use assets are depreciated over the useful life of the underlying asset. Depreciation expense is recorded in the Consolidated Statement of Income. Right-of-use assets are included under property, plant and equipment. See Note 5 to the 2019 Financial Statements.

Lease liabilities are initially measured at the present value of lease payments. Lease payments include fixed lease payments, variable lease payments that depend on an index or rate, amounts payable for guaranteed residual values and payments to be made under extension or purchase or termination options, where applicable. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Subsequent to initial recognition, the lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted for remeasurement to reflect any reassessments or lease modifications. Lease liabilities are included under borrowings. See Note 19 to the 2019 Financial Statements. Lease payments are allocated between the liability and finance costs. Finance costs are recorded as an expense in Saudi Aramco's consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Saudi Aramco has elected not to recognise right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments under short-term and low-value leases are recorded as an expense in Saudi Aramco's consolidated statement of income on a straight-line basis over the lease term.

*Significant accounting judgments and estimates*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to not be terminated or to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee.

*Accounting policies applied until 31 December 2018*

Agreements under which Saudi Aramco made payments to third parties in return for the right to use an asset for a period of time were accounted for as leases. Leases that transferred substantially all the risks and rewards of ownership to Saudi Aramco were recorded at commencement as finance leases. Such leases were capitalised on Saudi Aramco'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 was recorded in net income using the effective interest method over the term of the lease. Contingent rentals were recognised as an expense in the periods in which they were incurred. All other leases were recorded as operating leases and the associated costs were recorded in net income on a straight-line basis over the period of the lease.

Where Saudi Aramco was the lessor in a finance lease, the present value of the lease payments was recognised as a receivable. The interest element of the lease receivable was recognised in net income using the effective interest method.

***Investments and Other Financial Assets***

*Classification*

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 amortised cost.

For financial assets measured at fair value, gains and losses are recorded either in net income or other comprehensive income. For investments in debt securities, this depends on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this depends 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 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 Saudi Aramco 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 Saudi Aramco has transferred substantially all the risks and rewards of ownership.

*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:

Saudi Aramco subsequently measures all equity investments at fair value. 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 recognised 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 recognised 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) 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 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*

Saudi Aramco 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, Saudi Aramco 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***

Saudi Aramco'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*

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 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 Saudi Aramco's 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 recognised in net income.

*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 counterparties of high credit standing and are initially recognised, and subsequently remeasured, at fair value.

At the inception of the hedging transaction, Saudi Aramco documents the economic relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction.

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 all or a component of a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss. 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*

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. In addition, income tax expense results from taxable income generated by foreign affiliates.

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 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.

*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 recognised in net income in the period in which the change occurs. Deferred income tax assets are recognised only to the extent it is considered probable that those assets are recoverable. This includes an assessment of when those assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the assets when they do reverse. This requires assumptions regarding future profitability. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred income tax assets as well as in the amounts recognised in net income in the period in which the change occurs.

Detailed taxation information, including current expense and deferred income tax assets and liabilities, is presented in Note 8 to the 2019 Financial Statements.

### *Inventories*

Inventories are stated at the lower of cost or estimated net realisable 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 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 Saudi Aramco through price equalisation and for the past due trade receivables of specified Government and semi-Government agencies to whom Saudi Aramco supplies specified products and services. See Note 2(y) to the 2019 Financial Statements.

Revenue on sales to these specified Government and semi-Government agencies is recognised upon the satisfaction of performance obligations, which occurs when control transfers to these customers. Control of the products is determined to be transferred when the title of products passes, which typically takes place when product is physically transferred to these customers. 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 allow Saudi Aramco 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 Saudi Aramco to the Government. Balances due from the Government at 31 December represent 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.

***Treasury shares***

Treasury shares are recognised as a deduction from equity at the amount of consideration paid by Saudi Aramco for their acquisition, including any directly attributable transaction costs incurred.

***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.

Saudi Aramco's financial liabilities are:

*Financial Liabilities at FVPL*

Derivative financial liabilities are categorised as held for trading unless they are designated as hedges. See Note 2(k) to the 2019 Financial Statements. 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 Saudi Aramco'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 costs in Saudi Aramco's 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 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 recognised in Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco's consolidated balance sheet, 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 recognised as an expense in Saudi Aramco's consolidated statement of income.

*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 recognised in Saudi Aramco's 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 costs 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 20 to the 2019 Financial Statements included elsewhere in this Base Prospectus.

***Share-based compensation***

The cost of an equity-settled award granted to employees is measured by reference to the fair value of the equity instrument on the date the award is granted. This cost is recognised as an employee benefit expense in the income statement with a corresponding increase in equity.

The cost of a cash-settled award granted to employees is measured by reference to the fair value of the liability at each balance sheet date until settlement. This cost is recognised as an employee benefit expense in the income statement with the corresponding recognition of a liability on the balance sheet.

The cost of both the equity-settled and cash-settled awards is recognised over the vesting period, which is the period over which the employees render the required service for the award and any non-market performance condition attached to the award is required to be met. Additionally, for a cash-settled award, any changes in the fair value of the liability between the vesting date and the date of its settlement are also recognised in the income statement within employee benefit expense.

In determining the fair value of an equity-settled or cash-settled award, an appropriate valuation method is applied. Service and non-market performance conditions are not taken into account in determining the fair value of the award, but during the vesting period the likelihood of the conditions being met is assessed as part of Saudi Aramco's best estimate of the number of awards that are expected to vest. Any market performance conditions and non-vesting conditions are taken into account in determining the award's fair value.

***Provisions and Contingencies***

Provisions are liabilities where the timing or amount of future expenditures is uncertain. Provisions are recognised 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 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 Saudi Aramco's 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 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 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.

*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 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 21 to the 2019 Financial Statements included elsewhere in this Base Prospectus.

***Foreign Currency Translation***

The U.S. Dollar is the functional currency of Saudi Aramco 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.

*Significant accounting judgments and estimates*

Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco.

***Presentation Currency***

The Financial Statements are presented in Saudi Riyal. The financial position and results of operations of Saudi Aramco, 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 2019 Financial Statements are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the balance sheet dates.

***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 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 Saudi Aramco's 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 Saudi Aramco through price equalisation for revenue directly foregone as a result of Saudi Aramco's compliance with local regulations governing domestic sales and distribution of certain liquid products. See Note 2(a)(ii) of the 2019 Financial Statements. This compensation reflected in these consolidated financial statements, described as other income related to sales, is calculated by Saudi Aramco 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 in 2017.

This compensation is recorded as other income related to sales, that is taxable, when Saudi Aramco has satisfied its performance obligations through transfer of the title to the buyer, 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 2019 Financial Statements.

The implementing regulations allow Saudi Aramco 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 Saudi Aramco to the Government.

***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 Saudi Aramco's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 15% applied to prices up to $70.0 per barrel, increasing to 45% applied to prices above $70.0 per barrel and 80% applied to prices above $100.0 per barrel. See Note 2(a)(i) to the 2019 Financial Statements. All such royalties are accounted for as an expense in Saudi Aramco's 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.

***Dividends***

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of Saudi Aramco, on or before the end of the reporting period but not distributed at the end of the reporting period.

***Earnings per share***

*Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the net income attributable to the ordinary shareholders of the Issuer; and
- by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

***Reclassifications***

Certain comparative amounts in the Consolidated Statement of Income and Consolidated Balance Sheet for the year ended 31 December 2018 have been reclassified to conform to the current year presentation. Such reclassifications did not impact the previously reported net income.

These include certain sales of crude oil and related purchases of refined products in the amount of SAR 12,239 million, which are presented in the Consolidated Statement of Income as revenue and purchases reflecting current trading arrangements.

**New or Amended Standards**

(i) Saudi Aramco adopted for the first time the following IASB pronouncement, as endorsed in the Kingdom, effective for annual reporting periods beginning on or after 1 January 2019:

***IFRS 16—Leases***

IFRS 16—Leases, as issued by the IASB in January 2016, replaced IAS 17, Leases, and relates to the recognition, measurement, presentation and disclosure of leases. Saudi Aramco adopted IFRS 16, using the modified retrospective approach, from the mandatory adoption date of 1 January 2019.

Under IAS 17, leased assets were classified as either finance or operating leases. Payments made under operating leases were charged to net income on a straight-line basis over the period of the lease. On adoption of IFRS 16, right-of-use assets and lease liabilities of SAR 26,051 million were recognised for previously classified operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. For leases previously classified as finance leases, Saudi Aramco continued to recognise the same carrying amount of the lease asset and lease liability as immediately before transition. There was no impact of adoption of IFRS 16 on the opening retained earnings at 1 January 2019.

In accordance with the transition provisions in IFRS 16, comparative figures have not been restated and the following practical expedients were applied on transition: a) the use of a single discount rate for a portfolio of leases with reasonably similar characteristics; b) reliance on previous assessments on whether leases are onerous; c) the accounting for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases; d) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; e) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease and f) not to reassess whether a contract is, or contains a lease at the date of initial application.

The table below presents the reconciliation between operating lease commitments disclosed in the consolidated financial statements for the year ended 31 December 2018 and the lease liability recognised at 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.1%.

| | SAR<br>*(in millions)* |
|---|---|
| Operating lease commitments disclosed at 31 December 2018 | 35,565 |
| Discounted using Saudi Aramco's incremental borrowing rate at 1 January 2019 | 27,814 |
| Add: finance lease liabilities recognised at 31 December 2018 | 13,058 |
| (Less): short-term leases recognised on a straight-line basis | (1,647) |
| (Less): low value leases recognised on a straight-line basis as expense | (116) |
| **Lease liability recognised at 1 January 2019** | **39,109** |
| Current lease liabilities | 6,439 |
| Non-current lease liabilities | 32,670 |
| | **39,109** |

For further information on leases, see Notes 2(i), 5 and 19 of the 2019 Financial Statements.

(ii) There are no standards, amendments and interpretations that are not yet effective and have not been early adopted by Saudi Aramco that are expected to have a material impact in the current or future reporting periods or on foreseeable future transactions.

(iii) In July 2017, the United Kingdom Financial Conduct Authority, which regulates the London Interbank Offered Rate ("**LIBOR**"), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates. In September 2019, the IASB amended IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, and IFRS 9, Financial Instruments, which modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the Interbank Offered Rate ("**IBOR**") reform. In addition, the amendments require companies to provide additional information about their hedging relationships which are directly affected by these uncertainties. The amendments were effective beginning on 1 January 2020.

Additionally, the IASB is considering the potential consequences on financial reporting of replacing an existing benchmark with an alternative. IBOR reforms and expectation of cessation of LIBOR will impact Saudi Aramco's current risk management strategy and possibly accounting for certain financial instruments used for hedging. Saudi Aramco has the following hedging instruments (Note 3(d)) which are exposed to the impact of LIBOR:

- Financial Assets: SAR 13 million.
- Financial Liabilities: SAR 338 million.

Saudi Aramco uses financial instruments as part of its risk management strategy to manage exposures arising from variation of interest rates that could affect net income or other comprehensive income and applies hedge accounting to these instruments. Saudi Aramco has certain borrowings where the reference rate is linked to LIBOR. Saudi Aramco is assessing the impact to ensure a smooth transition from LIBOR to new benchmark rates. For a discussion on the LIBOR phase-out, see "*Risk Factors—Risks Related to the Structure of a Particular Issue of Notes—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*".

The following IASB pronouncement that is endorsed in the Kingdom will become effective for annual periods beginning on or after 1 January 2021 has not been early adopted by Saudi Aramco:

On 27 August 2020, the IASB issued amendments to IAS 39, Financial Instruments: Recognition and Measurement, IFRS 4, Insurance Contracts, IFRS 7, Financial Instruments: Disclosures, IFRS 9, Financial Instruments, and IFRS 16, Leases as part of Phase 2 of a two-phase project for IBOR reform, which address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. These amendments include:

- providing practical expedients in relation to accounting for instruments to which the amortised cost measurement applies by updating the effective interest rate to account for a change in the basis for determining the contractual cash flows without adjusting the carrying amount;

- additional temporary exceptions from applying specific hedge accounting requirements, including permitted changes to hedge designation without the hedging relationship being discontinued when Phase 1 reliefs cease; and

- additional disclosures related to IBOR reform, including managing the transition to alternative benchmark rates, its progress and the risks arising from the transition, quantitative information about financial instruments that have yet to transition to new benchmarks and changes in the entity's risk management strategy where this arises. Saudi Aramco is currently undergoing an exercise to assess the impact of these Phase 2 amendments.

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

*The Industry Consultant provides research, data and advisory services to major international companies as well as public institutions. It operates in several fields and sectors, principally energy, finance, transportation and petrochemicals. The Industry Consultant is listed on The New York Stock Exchange, has its headquarters in London, United Kingdom and has approximately 20,000 employees.*

## Overview

- **Global demand for crude oil is expected to continue growing, with global GDP growth being a key driver**. Real global GDP grew at a CAGR of 3.1% from 2009 to 2019. Due to the economic impact of the COVID-19 pandemic and measures taken to combat it, the global economy is expected to be in a state of temporary dislocation through the end of 2020 with GDP growth expected to be (4.5)% between 2019 and 2020. A recovery in the market is expected in 2021 with real global GDP expected to grow by 4.4% between 2020 and 2021. After an expected stabilisation in the market, real global GDP is expected to grow at a CAGR of 3.1% from 2021 to 2030. Future growth is expected to be led primarily by non-OECD Asia Pacific, with an anticipated real GDP growth at a CAGR of 4.5% from 2021 to 2030. Global crude oil demand is expected to grow at a CAGR of 1.3% from 2021 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 in OECD countries caused by the increasing availability of alternative energy sources, greater energy efficiency and the emergence of new technologies in energy consumer markets, such as electric vehicles.

- **Global demand for refined products and chemicals, including ethylene, is expected to grow**. Global demand for refined products is expected to increase at a CAGR of 1.4% from 2021 to 2030, driven by an increase in demand in Latin America, Africa, the Middle East and Asia Pacific. Between 2021 and 2030, global demand for ethylene is expected to grow at a CAGR of 3.2%, primarily due to an anticipated growth in demand from China and North America. During this same period, global demand for all types of polyethylene, including high density, low density and linear low density-polyethylene, are expected to grow at a CAGR of 3.5%, with over half of the increased demand coming from Northeast Asia, driven mainly by an increase in demand from China.

- **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 2021 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

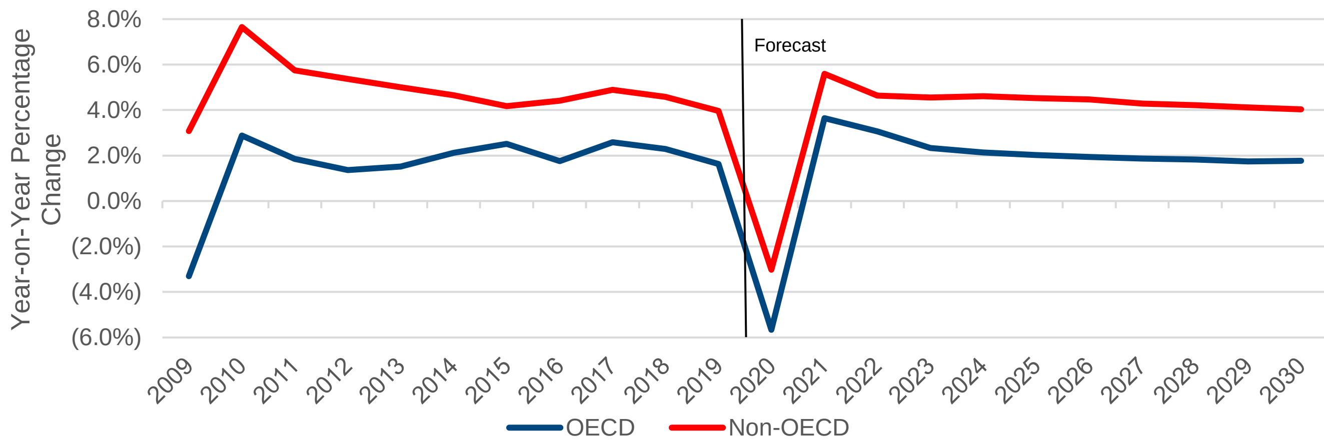
### *GDP*

Real global GDP is a key driver of oil demand. From 2009 to 2019, real global GDP grew at a CAGR of 3.1%. Due to the economic impact of the COVID-19 pandemic and measures taken to combat it, the global economy is expected to be in a state of temporary dislocation through the end of 2020, with GDP growth expected to be (4.5)% between 2019 and 2020. A recovery in the market is expected in 2021, with real global GDP expected to grow by 4.4% between 2020 and 2021. After an expected stabilisation in the market, real global GDP is expected to grow at a CAGR of 3.1% from 2021 to 2030.

In recent years, non-OECD countries have been the main drivers of real global GDP growth. From 2009 to 2019, the real GDP of non-OECD countries increased at a CAGR of 5.0%, 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 6.3% from 2009 to 2019.

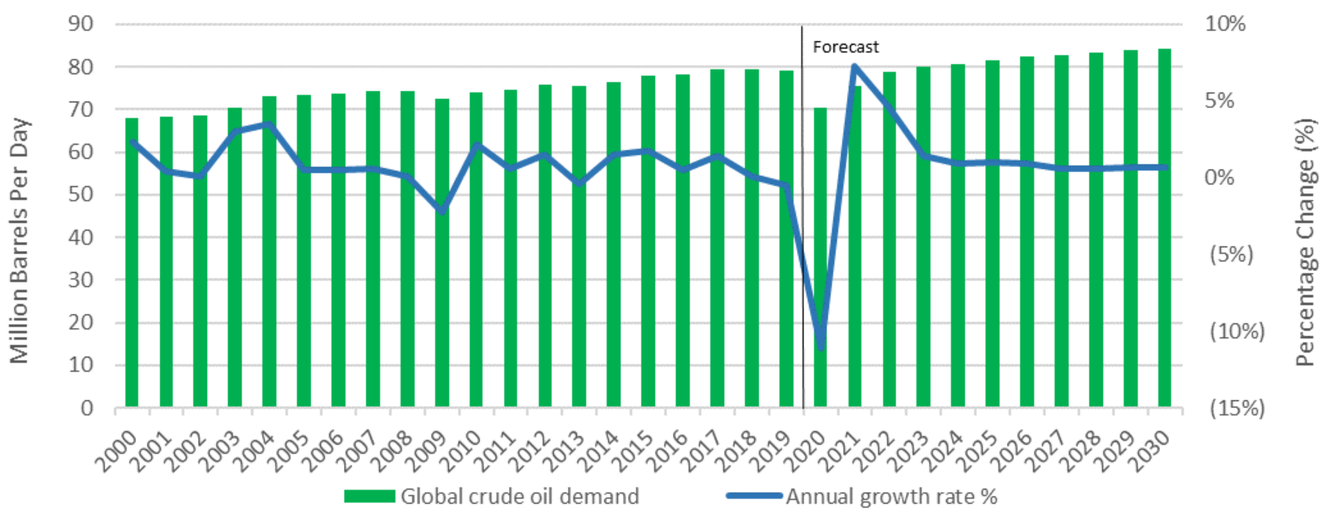
The real GDP of non-OECD countries, generally, and in Asia Pacific, specifically, is forecasted to grow at a CAGR of 4.4% and 4.5%, respectively, from 2021 to 2030, while the real GDP of OECD countries is expected to grow at a CAGR of 2.1% during that period. The anticipated growth in non-OECD Asia Pacific 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 3.8% from 2021 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 2019 and expected annual growth rates from 2020 to 2030.

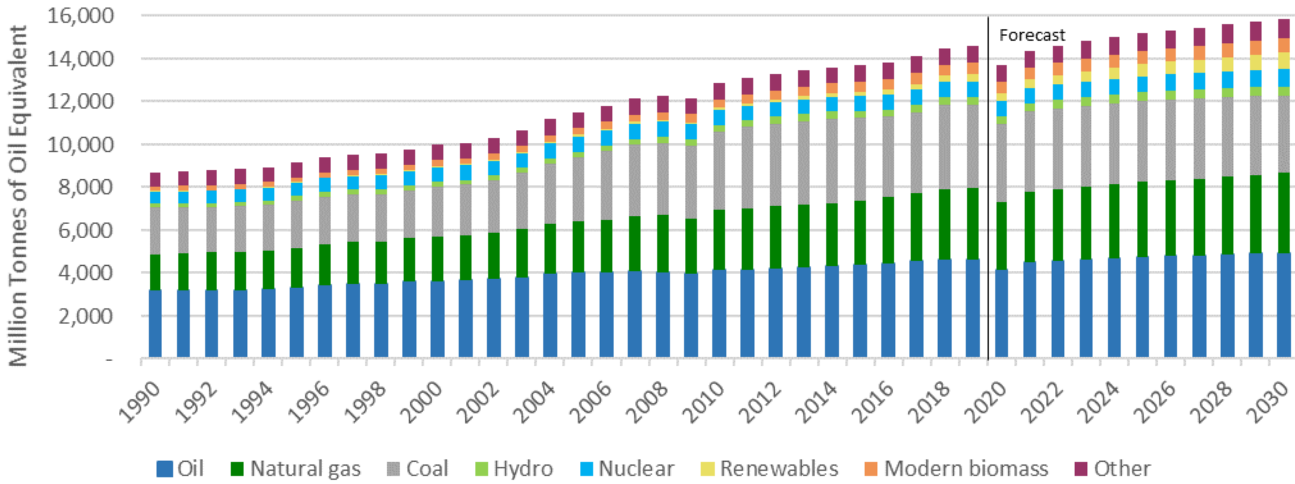



***Crude Oil Demand***

Historically, global crude oil demand growth had generally tracked global GDP growth trends. Global crude oil demand increased at a CAGR of 0.8% between 2000 and 2019. Due to the economic impact of the COVID-19 pandemic and measures taken to combat it, global crude oil demand is expected to fall by 11.1% between 2019 and 2020. As the demand for refined products is expected to recover in 2021, global crude oil demand is expected to increase by 7.3% between 2020 and 2021 and is expected to recover to 2019 levels by 2023, with further growth expected thereafter. Global crude oil demand is expected to grow at a CAGR of 1.3% from 2021 to 2030. The following chart illustrates global annual crude oil demand and growth rates from 2000 to 2019 and expected annual crude oil demand and growth rates from 2020 to 2030.



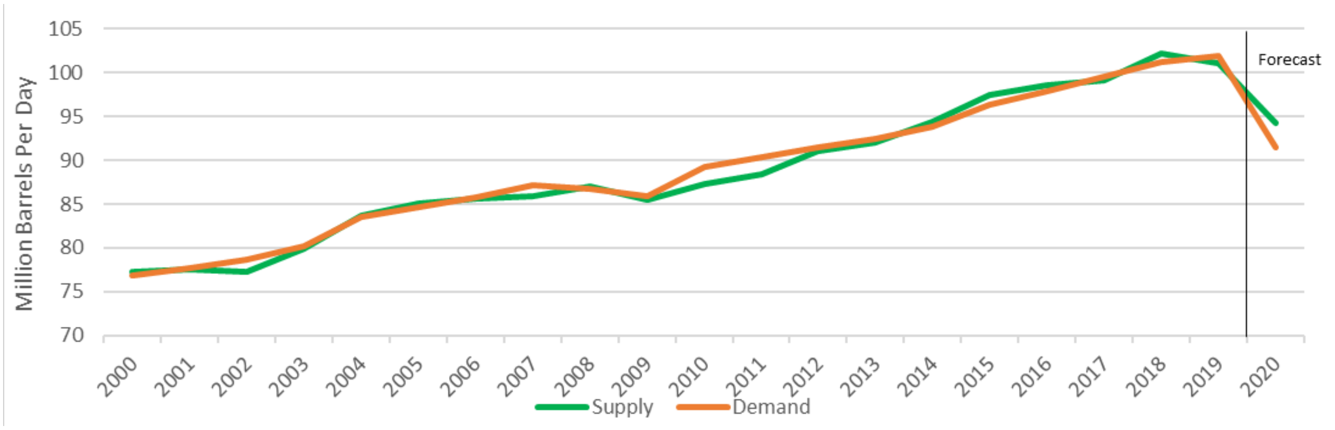
Demand for oil is influenced by its use for energy. Oil is the world's leading energy source, accounting for 31.7% of global primary energy demand in 2019. Through 2030, oil is expected to remain the leading primary energy source despite anticipated increases in energy efficiency, increased use of natural 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 31.1% of total energy consumption. The following chart sets forth the sources of energy from 1990 to 2019 and expected global sources of energy from 2020 to 2030.



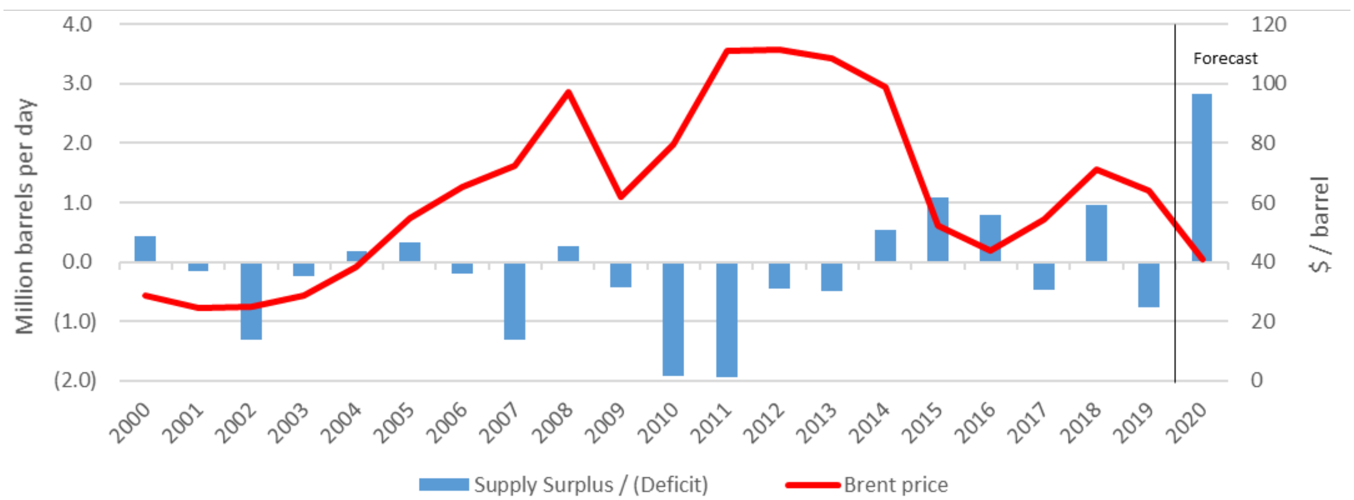

## Liquids Supply-Demand Balance

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 3.1% and 4.4%, respectively, from 2009 to 2019, while liquids demand in OECD countries increased at an average rate of 0.4%. Due to the economic impact of the COVID-19 pandemic and measures taken to combat it, global liquids demand is expected to decline by 10.2% between 2019 and 2020. During this same period, demand for liquids in OECD countries is expected to contract by 12.5% while liquids demand in non-OECD countries is expected to decline by 8.3%. A recovery in the market is expected in 2021, with global liquids demand expected to grow by 6.8% between 2020 and 2021. During this same period, liquids demand in non-OECD countries, generally, and in non-OECD Asia Pacific, specifically, is anticipated to grow 7.6% and 8.5%, respectively, while liquids demand in OECD countries is anticipated to grow 5.7%. After an expected stabilisation in the market, global liquids demand is expected to grow at a CAGR of 1.4% from 2021 to 2030, with demand in non-OECD countries, generally, and in non-OECD Asia Pacific specifically, is anticipated to grow at a CAGR of 2.2% and 2.5%, respectively during that period. In contrast, between 2021 and 2030, liquids demand in OECD countries which have sizeable, yet stable, demand, is expected to grow at a lower CAGR of 0.3%, primarily due the maturity of their economies and the increased use of alternative energy sources and more fuel efficient vehicles.

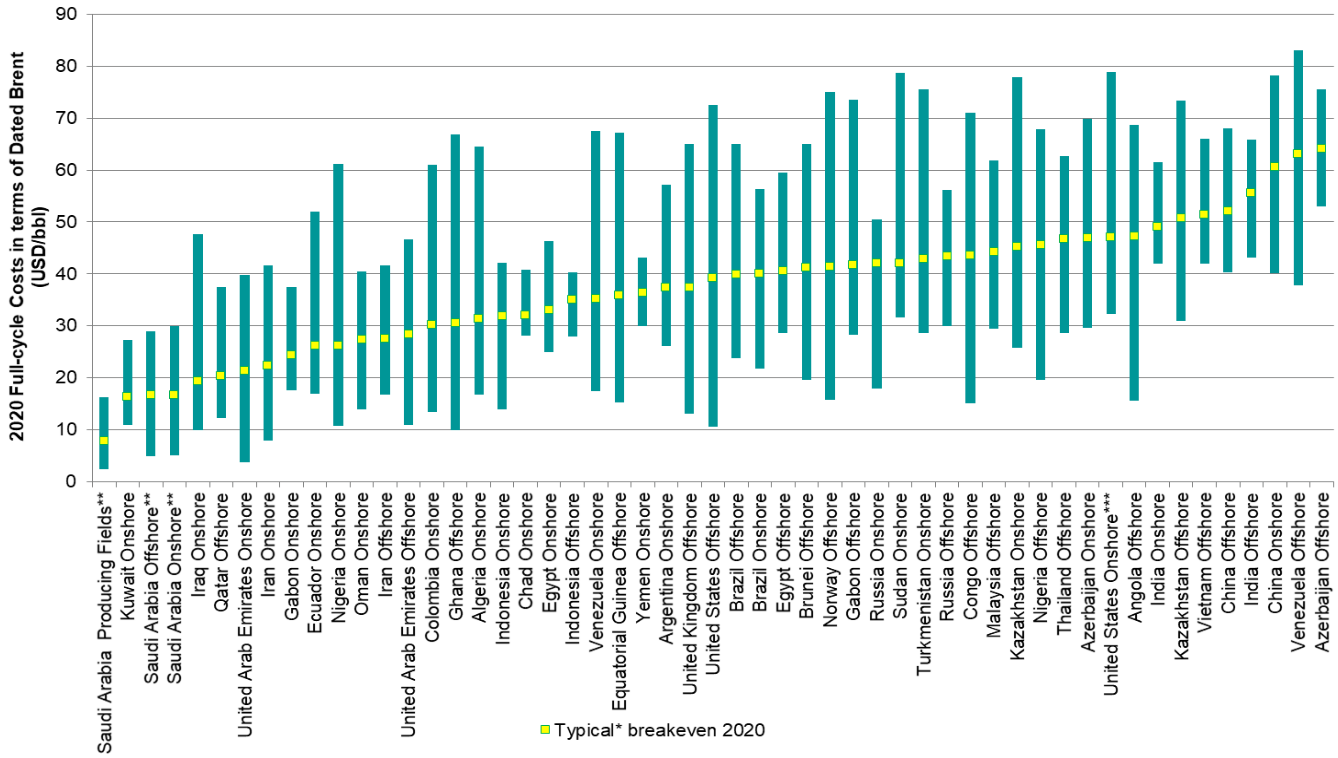
Any movement in supply or demand for liquids products affects the liquids supply-demand balance and, correspondingly, impacts oil prices and production decisions. Among the most significant recent imbalances were an excess supply in liquids during the period between 2014 and 2016 and a large inventory build-up during the first half of 2020, each of which exerted downward pressure on oil prices. The following chart shows the liquids supply-demand dynamic from 2000 to 2020.




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 3.2% to 1.3% between 2015 and 2016, while the annual demand growth rates fell from 2.6% to 1.6% 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, demand for liquids outpaced supply, which led to a rise in oil prices, with Brent price averaging $54 per barrel in 2017 and $71 per barrel in 2018. In 2019, Brent prices fell to an average $64 per barrel as a result of a drop in demand growth. Due to the COVID pandemic, Brent prices continued to decline in 2020 as a result of steep fall in demand and a resulting significant inventory build-up in first half of 2020. This inventory build-up is expected to gradually decline through the end of 2020 and into 2021. The following chart sets forth the relationship between global liquids balance and Brent price from 2000 to 2020.




Additionally, as oil prices fell from 2014 to 2016, producers began to reduce oil and gas exploration and production capital expenditures, with North America experiencing the most significant drop. Global annual oil and gas exploration and production capital expenditures fell from $712 billion to $354 billion during that period. Since 2016, global capital expenditures have been increasing steadily and rose to $467 billion in 2018. Notably, between 2016 and 2018, onshore unconventional resources exploration and production spending increased from $51 billion to $121 billion, the most significant increase in capital expenditures during that period. Despite global volatility since 2014, capital expenditures in the Middle East have remained relatively stable and reached $41 billion in 2019. However, due to a fall in demand for oil and a corresponding fall in oil prices resulting from the economic impact of the COVID-19 pandemic and measures taken to combat it, global capital expenditures are expected to fall by 33.3% between 2019 and 2020. However, as oil prices continue to recover, global exploration and production capital expenditures are expected to rise and exceed 2019 levels by 2025. The following chart sets forth post-tax breakeven costs for new oil projects at a 10% rate of return by country and field type through 2030.



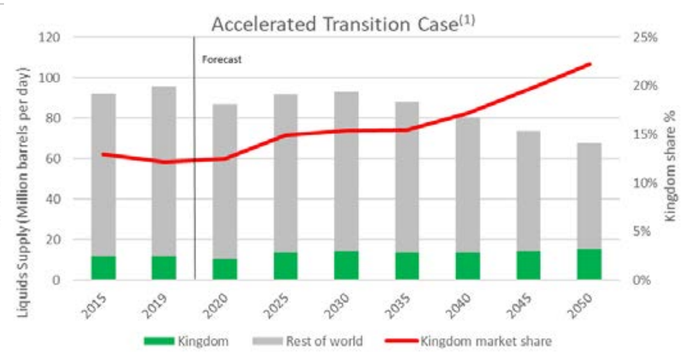

(*) A typical project is not a weighted or arithmetic average but a selection of what a typical new oil project in that country would cost in today's market. New oil projects selected by country from 2020-onwards.

(**) The breakeven price for producing fields in Saudi Arabia is forward looking hence it excludes all exploration and development cost. 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 2020.

(***) The break-even for U.S. Onshore excludes land acquisition cost.

Global demand growth for liquids is expected to level off around 2035 and eventually peak in the early 2040s. Global supply is expected to move in line with demand, with an expected increase in market share for lower cost producers, including the Kingdom. Consequently, between 2015 and 2050, the Kingdom's daily liquids supply volumes are expected to increase at a CAGR of 0.9%.

Alternatively, in a scenario representing a more rapid transition away from fossil fuels, global demand for liquids is expected to have peaked in 2019. However, even in this scenario, the Kingdom's share of global supply is expected to increase through 2050, with the Kingdom's daily liquids supply volumes expected to increase at a CAGR of 0.7% between 2015 and 2050. The following chart illustrates estimated, actual and expected supply of liquids from 2015 to 2050 under both demand scenarios.

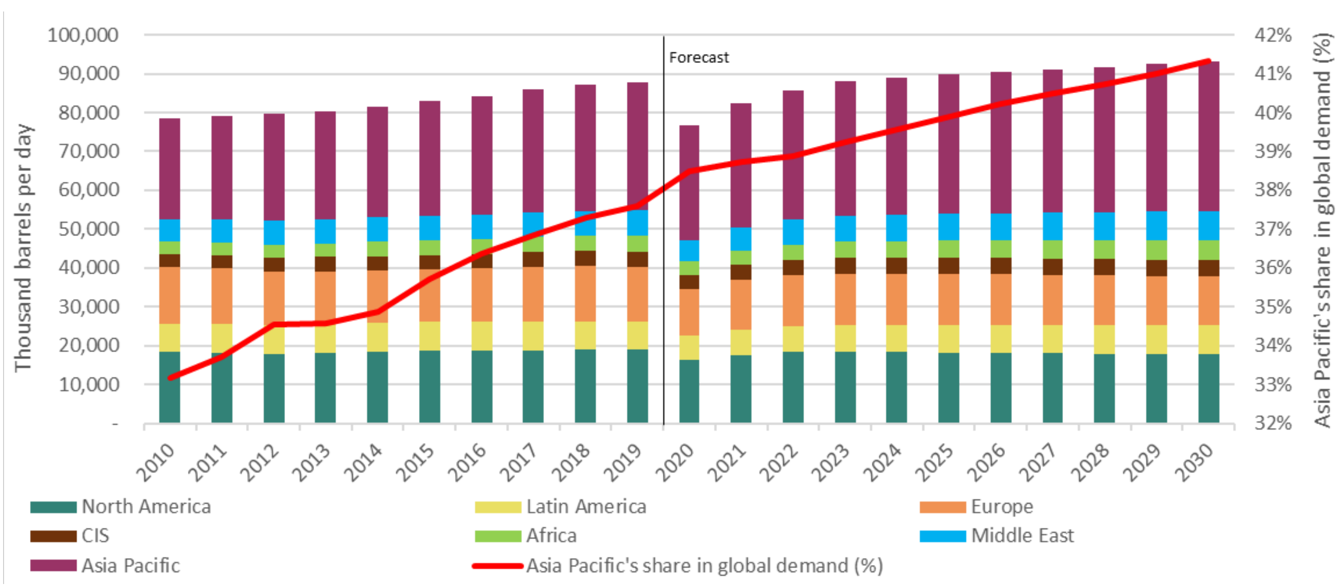




(1) The Kingdom's market share projections in these two scenarios are based on a number of assumptions regarding government policies, technology developments and market responses.

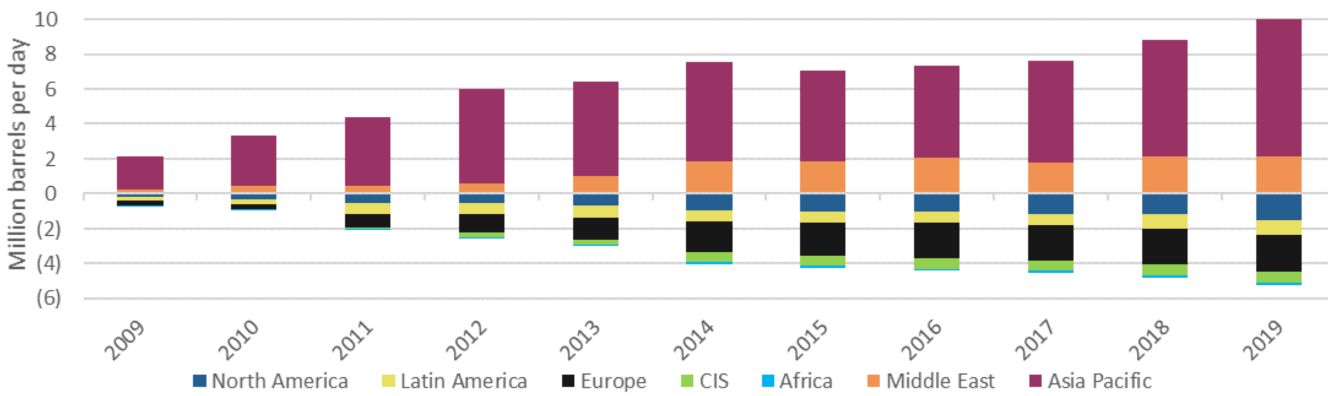
**Growth in Global Demand for Refined Products and Chemicals**

Between 2010 and 2019, refined product demand increased globally at a CAGR of 1.3%, mainly driven by growth in CIS, Africa, the Middle East and Asia Pacific, which saw refined product demand increase at CAGRs of 2.2%, 2.7%, 1.5% and 2.7%, respectively, between 2010 and 2019.

Global demand for refined products is expected to decline by 12.4% between 2019 and 2020 due to the economic impact of the COVID-19 pandemic and measures taken to combat it. However, a recovery in the market is expected in 2021, with global demand for refined products is expected to increase by 7.3% between 2020 and 2021. Between 2021 and 2030, global demand for refined products is expected to increase at a CAGR of 1.4%, driven by continuing demand from Africa, the Middle East and Asia Pacific, which are expected to grow at CAGRs of 3.5%, 2.6% and 2.1%, respectively. In the same period, Asia Pacific's share of global demand for refined products is expected to increase from 38.7% to 41.3%. Demand growth for refined products in North America and Europe is expected to level off in 2023. The following chart illustrates refined product demand by region from 2010 to 2019 and expected refined product demand by region from 2020 to 2030.

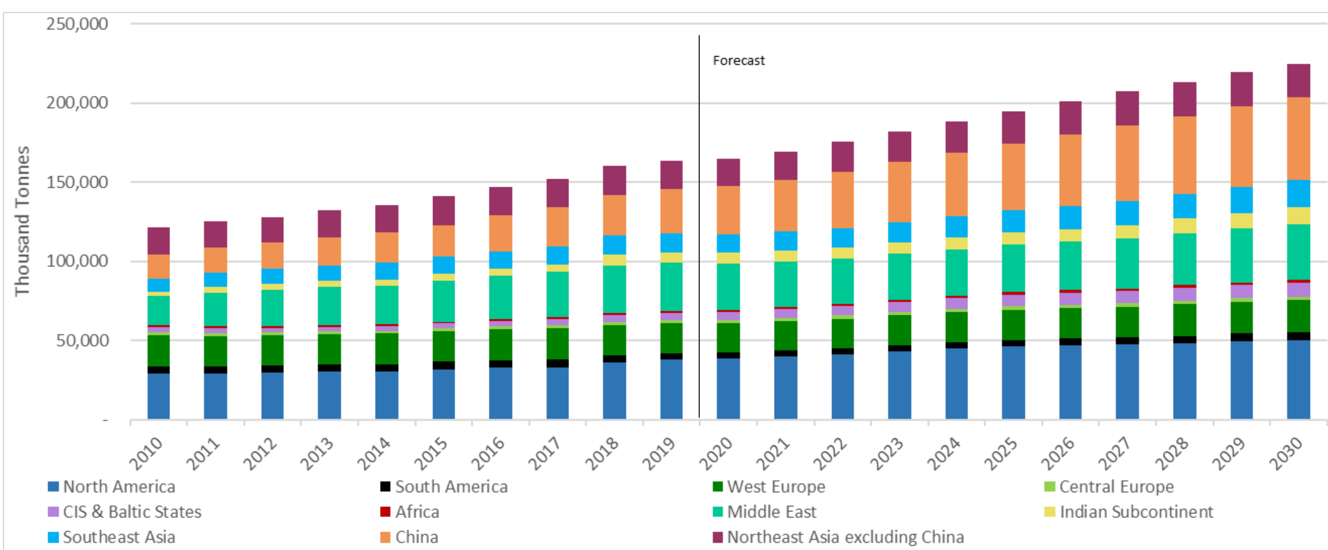


Regional changes in the demand for refined products have led to a geographical shift in refining operations, with more new, large and increasingly complex refineries opening in Asia Pacific and the Middle East and aging uneconomical and operationally inefficient refineries closing in OECD countries, particularly in Europe. These new, larger and increasingly complex refineries integrated with petrochemicals have superior crude diet flexibility and greater efficiency. The following chart depicts net cumulative refinery capacity additions and (closures) between 2009 and 2019, with net cumulative refinery additions in the Middle East and Asia Pacific and net cumulative refinery closures in North America, Africa, Latin America, the Commonwealth of Independent States ("**CIS**") and Europe.

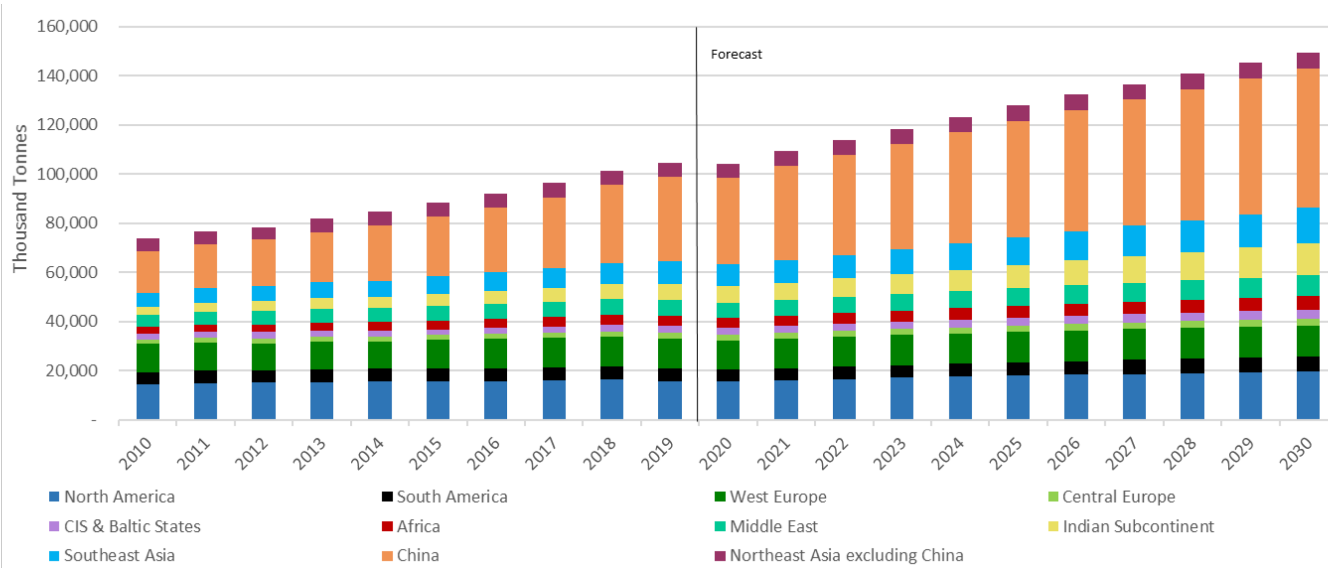



Due to stricter regulatory requirements and increasingly strict emissions standards, refineries are generally shifting to the production of higher quality fuels, such as gasoline, jet fuel and certain types of diesel, and converting fuel oil into higher quality products. The proliferation of electric vehicles has also had an impact on the demand for refined products. Further, as demand growth for gasoline and diesel slows in the long term, jet fuel and naphtha are expected to drive refined product demand with the increase in demand for naphtha being driven by feedstock requirement from the chemicals sector.

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 2019 and is forecasted to grow at a CAGR of 3.2% from 2021 to 2030. The COVID-19 pandemic has had a minor impact on global ethylene demand in 2020, which increased by 0.9% between 2019 and 2020. From 2021 and 2022, an increase 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 2.6%, respectively. The following chart sets forth the global domestic demand for ethylene by region from 2010 to 2019 and expected domestic demand for ethylene from 2020 to 2030.



As an ethylene derivative, polyethylene comprised 62.4% of the global demand for ethylene in 2019, with demand for polyethylene growing at a CAGR of 3.3% globally from 2010 to 2019. The economic impact of the COVID-19 pandemic and measures taken to combat it is expected to have a minor effect on the overall demand for polyethylene in 2020 with global demand expected to fall 0.3% between 2019 and 2020. Demand for polyethylene is forecasted to grow at a CAGR of 3.5% from 2021 to 2030, mainly driven by an increase in demand from Northeast Asia, generally, and in China, specifically, where demand is expected to grow at a CAGR of 4.0% and 4.4%, respectively. Demand from China is expected to represent 97% of Northeast Asia's incremental demand. The following chart sets forth the global demand for polyethylene by region from 2010 to 2019 and expected demand for ethylene from 2020 to 2030.

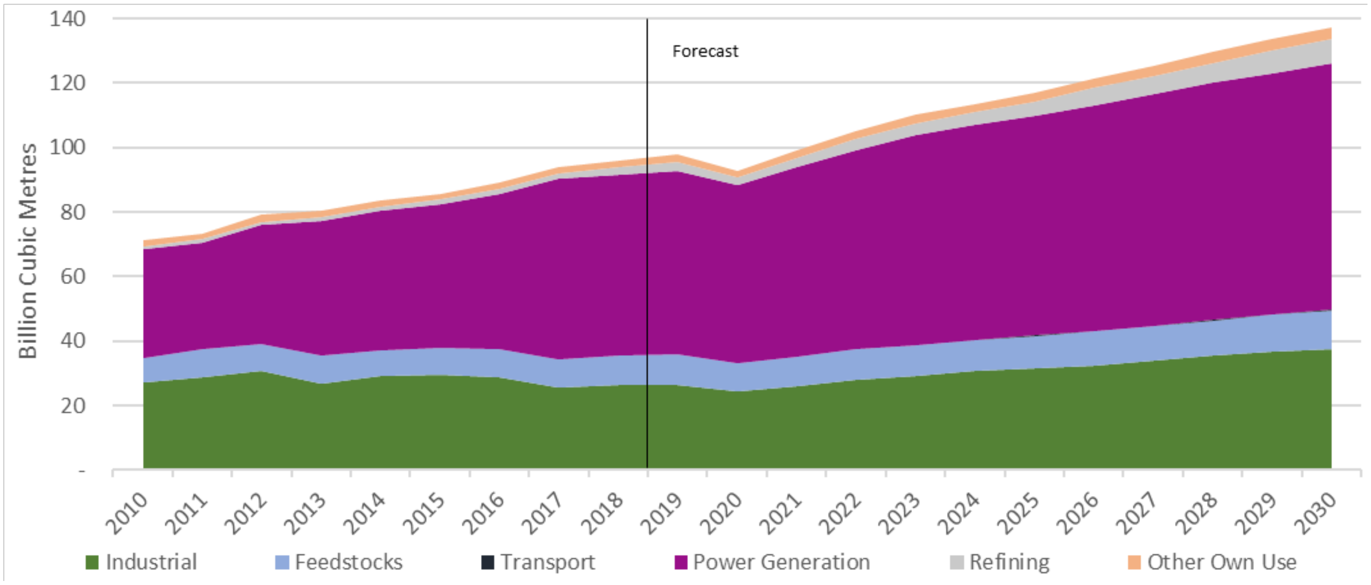



**In-Kingdom Natural Gas Demand**

Between 2010 and 2019, in-Kingdom natural gas demand grew at a CAGR of 3.6%, driven by the increased use of gas in power generation, as compared to a CAGR of 2.1% for global natural gas demand.

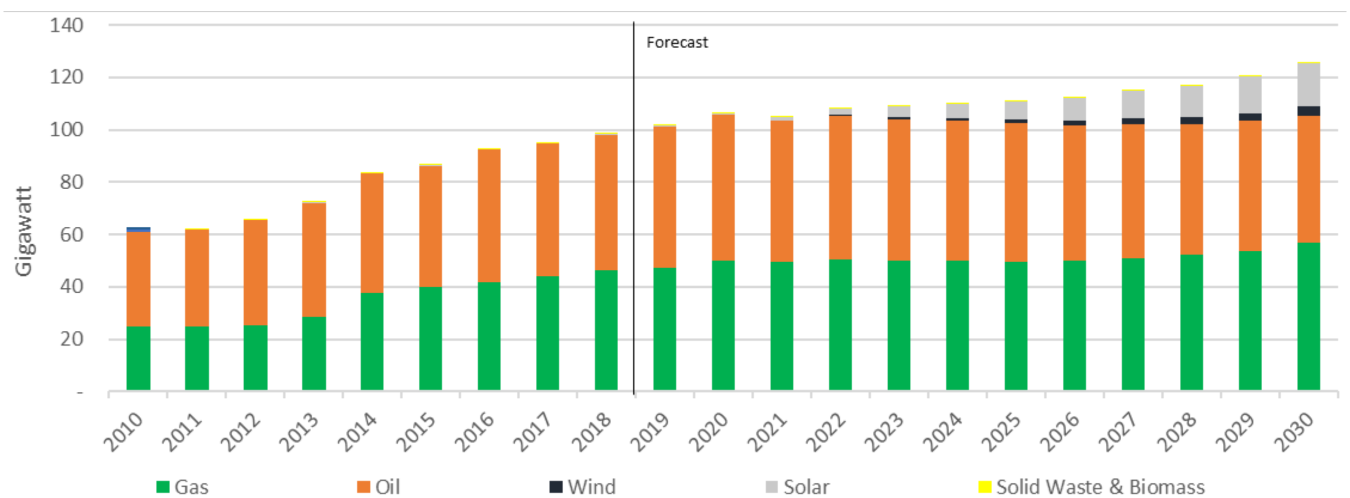
As a result of the economic impact of the COVID-19 pandemic and measure taken to combat it, between 2019 and 2020, global and in-Kingdom natural gas demand is expected to decline by 5.4% and 5%, respectively. However, a recovery in the market is expected in 2021, with global and in-Kingdom natural gas demand expected to grow by 2.5% and 6.7%, respectively, between 2020 and 2021. From 2021 to 2030, in-Kingdom natural gas demand is expected to grow at a CAGR of 3.7%, and is expected to continue to outpace growth of global demand for gas, which is expected to grow at a CAGR of 1.7% during the same period. The Kingdom's domestic use of natural gas has historically been constrained by available supply. However, over the past decade, development of non-associated natural gas resources in the Kingdom has significantly increased domestic natural gas production capacity. For a discussion on the expansion of the MGS, see "*Business—Operating Segments—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 2018 and expected natural gas demand by sector from 2019 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 2018 and expected power capacity growth by fuel (including natural gas) used in the Kingdom from 2019 to 2030.




The economic impact of the COVID-19 pandemic and measures taken to combat it is expected to impact power demand negatively leading to a 4.1% decrease in natural gas-fuelled power generation in 2020. Natural gas-fuelled power capacity is expected to increase in 2020 as projects that were under development are commissioned. Natural gas-fuelled power capacity is expected to grow at a CAGR of 1.5% from 2021 to 2030, and natural gas-fuelled power generation at a CAGR of 3.1% for the same period. In 2030, power generation using natural gas as feedstock is expected to constitute approximately 72% of the country's electricity generation output, up from 64% in 2018, while oil's share is expected to decline from 36% to 18%.

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.  Due to the economic impact of the COVID-19 pandemic and measures taken to combat it, between 2019 and 2020, gas demand by the Kingdom's refining and industrial sectors is expected to fall by 15% and 7.6%, respectively.  However, as economic activity recovers, gas demand by the refining and industrial sectors is expected to increase by 23.6% and 5.6%, respectively, between 2020 and 2021.  From 2021 to 2030, gas demand by the Kingdom's refining and industrial sectors is expected to grow at a CAGR of 10.5% and 4.3%, respectively.

## BUSINESS

### Overview

Saudi Aramco is the world's largest integrated oil and gas company. In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 million barrels per day of crude oil (including blended condensate). Saudi Aramco's crude oil production accounted for approximately one in every eight barrels of crude oil produced globally from 2016 to 2019. As at 31 December 2019, Saudi Aramco's proved liquids reserves were 227.6 billion barrels. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. Saudi Aramco 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.

Saudi Aramco's heritage dates back to 1933 as an upstream venture founded by predecessors to Chevron and ExxonMobil. Saudi Aramco's upstream operations are based in the Kingdom, and it also operates a global downstream business. As at 30 September 2020, Saudi Aramco had two reportable segments, upstream and downstream, with all other supporting functions aggregated into a corporate segment.

For the nine months ended 30 September 2020, Saudi Aramco generated SAR 200.9 billion ($53.6 billion) in net cash provided by operating activities and SAR 125.8 billion ($33.5 billion) of Free Cash Flow. For the year ended 31 December 2019, Saudi Aramco generated SAR 416.5 billion ($111.1 billion) in net cash provided by operating activities and SAR 293.6 billion ($78.3 billion) of Free Cash Flow. Saudi Aramco operates within a conservative financial framework and strives to maintain its Gearing ratio to within its long-term targeted range of 5% to 15%, however, following the acquisition of the PIF's 70% equity interest in SABIC, Saudi Aramco's Gearing ratio was 21.8% as compared to (0.2)% as at 30 September 2020 and 31 December 2019, respectively. Free Cash Flow and Gearing are non-IFRS financial measures. For a definition of Free Cash Flow and Gearing and a reconciliation to the nearest financial measures calculated in accordance with IFRS, see "*Alternative Performance Measures—Free Cash Flow*" and "*Alternative Performance Measures—Gearing*".

#### *Upstream*

Saudi Aramco is a major producer of crude oil and condensate. In the nine months ended 30 September 2020, Saudi Aramco produced on average 12.4 million barrels per day of oil equivalent, including 9.2 million barrels per day of crude oil (including blended condensate and AGOC's share of the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait). Saudi Aramco reached a record level of production of 12.1 million barrels per day of crude oil on 2 April 2020 and 10.7 billion standard cubic feet per day of natural gas on 6 August 2020. In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 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, 9.0 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. Saudi Aramco 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 Saudi Aramco'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 2019, the Kingdom's reserves in the fields Saudi Aramco operates consisted of 336.7 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.0 billion barrels of NGLs and 237.4 trillion standard cubic feet of natural gas.

Pursuant to the Concession, effective 24 December 2017, Saudi Aramco's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, was limited to an initial period of 40 years, which will be extended by the Government for 20 years provided Saudi Aramco 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 Saudi Aramco and the Government agreeing on the terms of the extension. See "*Material Agreements—The Concession*"). The provision of a specified term in the Concession impacts the calculation of Saudi Aramco's reserves as compared to the Kingdom's reserves in the fields

Saudi Aramco operates. The Concession also requires Saudi Aramco to meet domestic demand for certain hydrocarbons, petroleum products and LPGs through domestic production or imports.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2019, Saudi Aramco's reserves were 258.6 billion barrels of oil equivalent. Saudi Aramco's oil equivalent reserves were sufficient for proved reserves life of 54 years, consisting of 201.9 billion barrels of crude oil and condensate, 25.7 billion barrels of NGLs and 190.6 trillion standard cubic feet of natural gas.

Saudi Aramco's average upstream lifting cost was SAR 10.6 ($2.8) per barrel of oil equivalent produced in 2019. In addition, Saudi Aramco's upstream capital expenditures for the year ended 31 December 2019 averaged SAR 17.5 ($4.7) per barrel of oil equivalent produced. Saudi Aramco'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 Saudi Aramco's reservoirs are located, synergies available from Saudi Aramco'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 Saudi Aramco's reservoirs and its operational model, it is possible to achieve high recovery factors while maintaining relatively low water cut levels for long periods of time.

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires Saudi Aramco 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. MSC was 12.0 million barrels of crude oil per day from 1 January 2019 to 30 September 2020. However, on 11 March 2020, the Government (acting through the Ministry of Energy) directed Saudi Aramco to increase MSC from 12.0 to 13.0 million barrels of crude oil per day. Saudi Aramco is currently evaluating the timing of, and the costs associated with, implementing the Government's directive to increase MSC. The spare capacity afforded by maintaining MSC enables Saudi Aramco to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. Saudi Aramco 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.

Saudi Aramco'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 2019. Saudi Aramco is the exclusive supplier of natural gas in the Kingdom and supplied 9.0 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane to the Kingdom in 2019. It owns and operates the MGS, which is an extensive network of pipelines that connects Saudi Aramco's key gas production and processing sites throughout the Kingdom. Saudi Aramco 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***

Saudi Aramco has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. The strategic integration of Saudi Aramco's upstream and downstream segments provides an opportunity for Saudi Aramco to secure crude oil demand by selling to its captive system of domestic and international wholly owned and affiliated refineries. The downstream segment's other business activities include base oils, lubricants and retail operations.

Saudi Aramco's downstream business is the largest customer for the upstream business' crude oil production, consuming 38% of its crude oil production in 2019. Saudi Aramco's upstream business produces all the crude oil supplied to and processed by Saudi Aramco'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 2019, Saudi Aramco's weighted average ownership percentage in Saudi Aramco's international refineries was 42%, but it supplied an average of 51% of the crude oil used by those refineries. This crude placement provides significant benefits to

Saudi Aramco's downstream operations, including a secure and reliable supply of high-quality crude oil, which helps to ensure a secure and reliable supply of refined products to its downstream customers.

As the sole supplier to the large domestic marketplace, Saudi Aramco's refining operations in the Kingdom, including its domestic affiliates, accounted for 59% of its net refining capacity in 2019. In addition to its domestic focus, Saudi Aramco 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.

Saudi Aramco also has an integrated petrochemicals business within its downstream segment, which enables it to capture incremental margin in the hydrocarbon value chain. Saudi Aramco'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. Saudi Aramco's chemicals business continues to grow through capacity expansions in the Kingdom, increasing ownership positions in affiliates and new investments, including its acquisition of the PIF's 70% equity interest in SABIC on 16 June 2020. Saudi Aramco's investment in SABIC makes it a major global producer of petrochemicals and expands its capabilities in procurement, manufacturing, marketing and sales. With the acquisition of a 70% equity interest in SABIC, as at 30 September 2020, Saudi Aramco's chemicals business operates in over 50 countries and produced a range of chemicals. Saudi Aramco expects that SABIC will benefit from Saudi Aramco's downstream chemicals feedstock production, and its ability to invest in and execute large scale projects.

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

Saudi Aramco's downstream segment includes its crude oil and product sales, distribution and trading platforms. These platforms support Saudi Aramco's upstream and downstream operations by enabling it to optimise crude oil sales and product placement through its significant infrastructure network of pipelines and terminals and access to shipping and logistics resources. Saudi Aramco also maintains flexibility to respond to fluctuations in demand through its five crude grades and MSC. This flexibility contributes to Saudi Aramco's ability to meet its customer's needs and its reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.2% of its delivery obligations on time in 2017, 2018 and 2019, respectively, and 99.9% of its delivery obligations on time in the first nine months of 2020.

### *Corporate*

Saudi Aramco'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 Saudi Aramco's core activities, as well as 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 Dhahran, 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 Arabian American Oil 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, Arabian American Oil Company established refining and marketing joint ventures in strategic geographies 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, Saudi Aramco 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, Saudi Aramco entered into additional ventures with: Dow (Sadara), Lanxess (ARLANXEO), Petronas (PRefChem), Sinopec (YASREF), Sumitomo (Petro Rabigh), Total (SATORP), Shell (Motiva) and Mobil (Luberef). Saudi Aramco acquired full ownership of Motiva (formerly a joint venture with Shell) on 1 May 2017 and ARLANXEO (formerly an associate in partnership with Lanxess) on 31 December 2018. Saudi Aramco's historical association with major hydrocarbons companies has provided it with dedicated outlets for its crude oil, technical expertise and operational and financial discipline. Additionally, on 18 September 2019, Saudi Aramco acquired the 50% share of SASREF from Shell that it did not already own.

On 1 January 2018, the Issuer 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) with Saudi Arabian Oil Company (Saudi Aramco) as its official name. The Issuer's registered office is P.O. Box 5000, Dhahran 31311, Kingdom of Saudi Arabia and its telephone number is +966 13 872 0115. The Issuer's website is www.aramco.com.

As at 30 September 2020, the share capital of the Issuer was SAR 60,000,000,000, which is fully paid, consisting of two hundred billion (200,000,000,000) ordinary shares with no par value, 98.2% 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.

**Business Strategies**

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

Saudi Aramco 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. Saudi Aramco maintains its desired level of crude oil production by balancing production between maturing areas and newer production sources, tapping into new reservoirs when required to optimise the depletion rate of its fields. It also maintains its low cost position due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which Saudi Aramco's reservoirs are located, synergies available from Saudi Aramco'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 2019, Saudi Aramco's average upstream lifting costs and upstream capital expenditures were SAR 10.6 ($2.8) per barrel of oil equivalent produced and SAR 17.5 ($4.7) per barrel of oil equivalent produced, respectively.

In addition, Saudi Aramco seeks to maintain its position as one of the world's most reliable crude oil suppliers. The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires Saudi Aramco to maintain MSC in excess of its then current production in accordance with the Hydrocarbons Law. The spare capacity afforded by maintaining MSC provides operational flexibility to respond rapidly to changes in global crude oil supply and demand. Though Saudi Aramco 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, Saudi Aramco 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. Saudi Aramco continues to invest in and develop a sophisticated and extensive crude oil distribution and dispatch system which maintains Saudi Aramco's supply reliability.

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

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

Saudi Aramco intends to continue the strategic integration of its upstream and downstream businesses to facilitate the placement of Saudi Aramco's crude oil in larger offtake volumes through a captive system of domestic and international wholly owned and affiliated refineries, allow it to capture additional value across the hydrocarbon chain, expand its sources of earnings and provide resilience to oil price volatility. For example, Saudi Aramco's acquisition of a 70% equity interest in SABIC on 16 June 2020 supports the significant expansion of Saudi Aramco's downstream activities, particularly in its chemicals business, and provides additional opportunities for Saudi Aramco to supply mixed feedstock of crude oil, refinery products and gas to manufacture petrochemicals products. In addition, the integration of Saudi Aramco's upstream and downstream segments provides a unique opportunity for Saudi Aramco to secure crude oil demand by selling to refineries designed specifically to economically process Arabian crude oil. Furthermore, Saudi Aramco intends to enhance its domestic and global marketing businesses to support the position of its upstream business in key, high-growth geographies, including China, India and Southeast Asia, which are integral to Saudi Aramco's existing business and future expansion strategy. Moreover, Saudi Aramco intends to maintain its presence in key large countries, such as the United States, and in countries that rely on importing crude oil, such as Japan and South Korea.

***Expand gas activities***

Saudi Aramco plans to expand its gas business to meet large and growing domestic demand for low-cost clean energy by increasing production and investing in additional infrastructure. This demand is driven by power generation, water desalination, petrochemical production and other industrial consumption in the Kingdom. Saudi Aramco'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, Saudi Aramco seeks over time to develop an integrated global gas portfolio and continues to evaluate investment and joint venture opportunities outside the Kingdom in natural gas and LNG projects.

***Expand global recognition of Saudi Aramco's brands***

Saudi Aramco 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, Saudi Aramco intends to use its own brands and thereby build recognition of its position as a leader in the global energy sector. For example, in March 2020, Saudi Aramco announced a long-term global partnership with Formula 1.

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

Saudi Aramco 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. Saudi Aramco'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. Moreover, on 23 August 2020, Saudi Aramco established an integrated corporate development organisation to create value, assess and divest of certain existing assets and secure greater access to growth markets and technologies through portfolio optimisation and strategic alignment. Saudi Aramco operates within a conservative financial framework and strives to maintain its Gearing ratio to within its long-term targeted range of 5% to 15%, however, following the acquisition of the PIF's 70% equity interest in SABIC, Saudi Aramco's Gearing ratio was 21.8% as compared to (0.2)% as at 30 September 2020 and 31 December 2019, respectively. Gearing is a non-IFRS financial measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see "*Alternative Performance Measures—Gearing*".

***Deliver sustainable dividends through crude oil price cycles***

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

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

Saudi Aramco's climate change strategy aims to grow its business sustainably by leveraging technology and innovation to lower its climate impact. Saudi Aramco intends to maintain its position as a leader in Scope 1 and Scope 2 upstream carbon intensity, with one of the lowest carbon footprints per unit of hydrocarbons produced. It is also pursuing a wide range of initiatives to further lower its carbon intensity. For example, Saudi Aramco's natural gas programme is increasing the percentage of gas used to meet the Kingdom's energy needs. Saudi Aramco is also collaborating with other major companies to share best practices and devise common solutions to climate change, including through participation in the Oil and Gas Climate Initiative forum. In January 2020, Saudi Aramco joined the Hydrogen Council as a steering member. The Hydrogen Council is a CEO-led organisation that promotes collaboration between governments, industry and investors to provide guidance on accelerating the deployment of hydrogen solutions globally. Moreover, in September 2020, Saudi Aramco and the Institute of Energy Economics, Japan (IEEJ), in partnership with SABIC, successfully completed the world's first shipment of high-grade blue ammonia, which involved the conversion of hydrocarbons to hydrogen and then to ammonia, as well as the capture of associated carbon dioxide emissions. Forty tonnes were dispatched from Saudi Arabia to Japan for use in zero-carbon power generation.

**Competitive Strengths**

***Upstream Competitive Strengths***

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

In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 million barrels per day of crude oil (including blended condensate) and its total liquids production was 11.2 million barrels per day. As at 31 December 2019, Saudi Aramco's proved liquids reserves were 227.6 billion barrels. Saudi Aramco believes that its portfolio includes the world's largest discovered conventional onshore oil field (Ghawar) and largest discovered 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 2019, Saudi Aramco's reserves were 258.6 billion barrels of oil equivalent. Saudi Aramco's oil equivalent reserves were sufficient for proved reserves life of 54 years. Saudi Aramco 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*

Saudi Aramco 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, Saudi Aramco 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 Saudi Aramco to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. This spare capacity also provides Saudi Aramco 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 Saudi Aramco produces are highly compatible with most refineries globally. In addition, Saudi Aramco's multiple in-Kingdom and international crude oil delivery points comprise an established network of access points to the global marketplace, enabling it to maximise delivery options based on variations in demand and position it as the major base load crude supplier. Furthermore, Saudi Aramco's MSC and integrated logistics network, including crude oil in storage facilities, allow it to vary crude oil production, which combined with their compatibility with global refining systems, provides Saudi Aramco with a unique ability to respond to changes in demand for Saudi Aramco's crude oil grades.

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

As at 31 December 2019, Saudi Aramco had 190.6 trillion standard cubic feet of proved natural gas reserves. In 2019, Saudi Aramco's natural gas production was 9.0 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.

Saudi Aramco is the exclusive supplier of natural gas in the Kingdom. This increase is primarily due to demand from power generation and the refining and industrial sectors. As a result, from 2003 to 2019, Saudi Aramco 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. Saudi Aramco has a commitment to emissions reduction and a GHG emissions management programme. The Kingdom has a small number of large and productive oil reservoirs, low per barrel gas flaring rates and low water production, resulting in less mass lifted per unit of oil produced and less energy used for fluid separation, handling, treatment and reinjection, all of which contribute to low upstream carbon intensity. Based on Saudi Aramco's 2019 upstream total deliveries of 12.8 million barrels of oil equivalent per day, the upstream carbon intensity of Saudi Aramco's domestic wholly owned and operated assets was 10.4 kilograms of carbon dioxide equivalent per barrel of oil equivalent for 2019.

*Low lifting costs and capital expenditures per barrel of oil equivalent*

Saudi Aramco's lifting costs are among the lowest in the world due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which its reservoirs are located, synergies available from Saudi Aramco'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 2019, Saudi Aramco's average upstream lifting cost was SAR 10.6 ($2.8) per barrel of oil equivalent produced. Saudi Aramco's upstream capital expenditures for the nine months ended 30 September 2020 averaged SAR 15.0 ($4.0) per barrel of oil equivalent produced. For the year ended 31 December 2019, Saudi Aramco's upstream capital expenditures averaged SAR 17.5 ($4.7) per barrel of oil equivalent produced. This low-cost base enables Saudi Aramco 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*

In 2019, 62% of crude production was sold through long-term crude oil supply agreements to a high-quality external customer base. Saudi Aramco 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 Saudi Aramco's upstream and downstream segments provides the opportunity to place crude oil into Saudi Aramco's downstream system, which is optimally designed to process Arabian crude oils. In 2019, 38% of crude oil produced by Saudi Aramco was delivered into this captive downstream system.

*Strong track record of supply reliability*

Saudi Aramco has a strong track record as a reliable crude oil supplier, meeting 99.7%, 99.8% and 99.2% of its delivery obligations on time in 2017, 2018 and 2019, respectively, and 99.9% of its delivery obligations on time in the first nine months of 2020.

*Largest customer for Saudi Aramco's upstream production*

Saudi Aramco's upstream business provides the substantial majority of crude oil processed by its downstream business, making the downstream business the biggest customer of the upstream business and securing feedstock for the downstream business. For the years ended 31 December 2017, 2018 and 2019, the downstream segment consumed 39%, 38% and 38% of the upstream segment's total crude oil production in those periods. Saudi Aramco specifically designs and configures its refining system to optimise production using Saudi Aramco'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 Saudi Aramco serves. Saudi Aramco's upstream business provides all the crude oil processed by Saudi Aramco's wholly owned and affiliated refineries in the Kingdom. In addition, Saudi Aramco supplies a higher percentage of the crude oil used by its international refineries than its aggregate equity ownership. In 2019, Saudi Aramco's weighted average ownership percentage in its international refineries was 42%, but it supplied an average of 51% of the crude oil used by those refineries.

*Major integrated refiner with a global network of complex, reliable assets in key regional markets and hubs*

As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day and net refining capacity of 3.6 million barrels per day. As the sole supplier to the large domestic marketplace, Saudi Aramco's operations in the Kingdom, including its affiliated refineries, accounted for 59% of its net refining capacity in 2019. In addition, Saudi Aramco 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.

On 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for $69.1 billion. Saudi Aramco's investment in SABIC makes it a major global producer of petrochemicals and expands its capabilities in procurement, manufacturing, marketing and sales. As a result of the acquisition of a 70% equity interest in SABIC, as at 30 September 2020, Saudi Aramco's chemicals business operates in over 50 countries and produced a range of chemicals. Saudi Aramco expects that SABIC will benefit from Saudi Aramco's downstream chemicals feedstock production, and its ability to invest in and execute large scale projects

*Scale and complexity advantage with one of the largest refining portfolios globally*

Saudi Aramco'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 Saudi Aramco's global integrated petrochemical production capacity, provides Saudi Aramco with competitive refining assets in the geographies it serves and enables Saudi Aramco to produce greater yields of high-margin downstream products than less complex refineries. These refining assets also provide an important platform upon which Saudi Aramco expects to grow its integrated refining and petrochemicals business.

*World class partners that provide access to additional geographies, technological expertise, operational know-how and marketing capabilities*

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

*Major petrochemicals producer globally*

Saudi Aramco's chemicals business continues to grow through capacity expansions in the Kingdom, increasing ownership positions in affiliates and new investments, including the acquisition of the PIF's 70% equity interest in SABIC on 16 June 2020. Saudi Aramco's investment in SABIC makes it a major global producer of petrochemicals and expands its capabilities in procurement, manufacturing, marketing and sales. With the acquisition of a 70% equity interest in SABIC, as at 30 September 2020, Saudi Aramco's chemicals business operates in over 50 countries and produced a range of chemicals. Saudi Aramco expects that SABIC will benefit from Saudi Aramco's downstream chemicals feedstock production, and its ability to invest in and execute large scale projects.

### *Saudi Aramco Competitive Strengths*

*High Operating cash flow, Free Cash Flow, EBIT and ROACE*

As shown below, Saudi Aramco has a high operating cash flow, Free Cash Flow, EBIT, and ROACE.

| | **Year Ended 31 December 2019** |
|---|---|
| Operating cash flow(1) | SAR 416.5 ($111.1) |
| Free Cash Flow(1)(2) | SAR 293.6 ($78.3) |
| EBIT(1)(2) | SAR 667.2 ($177.9) |
| ROACE(2) | 28.4% |

(1) SAR and $ in billions.

(2) Free Cash Flow, EBIT and ROACE are non-IFRS financial measures. For a definition of Free Cash Flow, EBIT 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 "*Alternative Performance Measures—Return on Average Capital Employed*".

*Low Gearing*

Saudi Aramco operates within a conservative financial framework and strives to maintain its Gearing ratio to within its long-term targeted range of 5% to 15%, however, following the acquisition of the PIF's 70% equity interest in SABIC, Saudi Aramco's Gearing ratio was 21.8% as compared to (0.2)% as at 30 September 2020 and 31 December 2019, respectively. Gearing is a non-IFRS financial measure. For a definition of Gearing and a reconciliation to the nearest financial measure calculated in accordance with IFRS, see "*Alternative Performance Measures—Gearing*".

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

Saudi Aramco has a long track record of successfully executing some of the world's largest upstream and downstream capital projects in the oil, gas and petrochemical industries.

**Operating Segments**

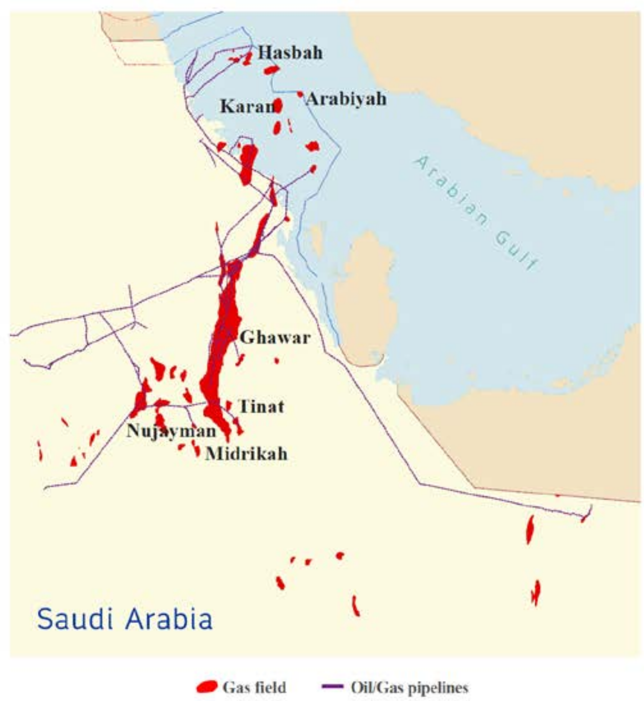
Saudi Aramco's primary operating segments are its upstream segment and downstream segment. The upstream segment's activities consist of exploring for, developing and producing crude oil, condensate, gas and NGLs. The downstream segment's activities consist primarily of refining and petrochemical manufacturing and supply, trading and marketing operations. Saudi Aramco'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, Saudi Aramco has exclusive access to all hydrocarbons within the Kingdom, except the Excluded Areas. See "*Material Agreements—The Concession*". The majority of Saudi Aramco's reservoirs are geographically clustered in the Eastern Province of the Kingdom and adjacent Arabian Gulf. The following maps illustrate the location of Saudi Aramco's key fields in the Kingdom.

Major Oil Fields


Major Gas Fields




Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2019, Saudi Aramco's reserves were 258.6 billion barrels of oil equivalent (sufficient for proved reserves life of 54 years). Saudi Aramco's proved crude oil and condensate reserves were 201.9 billion barrels. In addition, as at 31 December 2019, Saudi Aramco had proved NGL reserves of 25.7 billion barrels and proved natural gas reserves of 190.6 trillion standard cubic feet. As at 31 December 2019, Saudi Aramco's proved liquids reserves were 227.6 billion barrels.

In the nine months ended 30 September 2020, Saudi Aramco produced on average 12.4 million barrels per day of oil equivalent, including 9.2 million barrels per day of crude oil (including blended condensate and AGOC's share of the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait). Saudi Aramco reached a record level of production of 12.1 million barrels per day of crude oil on 2 April 2020 and 10.7 billion standard cubic feet per day of natural gas on 6 August 2020.

In 2019, Saudi Aramco produced 13.2 million barrels per day of oil equivalent, including 9.9 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, 9.0 billion standard cubic feet per day of natural gas and 1.0 billion standard cubic feet per day of ethane. In that year, 85.2% of Saudi Aramco's aggregate hydrocarbon production consisted of liquids, which generally command a higher margin than natural gas.

Saudi Aramco's lifting costs are among the lowest in the world due to the unique nature of the Kingdom's geological formations, favourable onshore and shallow water offshore environments in which Saudi Aramco's reservoirs are located, synergies available from Saudi Aramco'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 2019, Saudi Aramco's lifting costs averaged SAR 10.6 ($2.8) per barrel of oil equivalent produced using a normalised estimation approach, and its upstream capital expenditures averaged SAR 17.5 ($4.7) per barrel of oil equivalent produced.

*Reserves*

As at 31 December 2019, the Kingdom's reserves in the fields Saudi Aramco operates consisted of 336.7 billion barrels of oil equivalent, including 261.5 billion barrels of crude oil and condensate, 36.0 billion barrels of NGLs and 237.4 trillion standard cubic feet of natural gas, including 146.8 trillion standard cubic feet of non-associated gas.

Pursuant to the Concession, effective 24 December 2017, Saudi Aramco's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, was limited to an initial period of 40 years, which will be extended by the Government for 20 years provided Saudi Aramco 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 Saudi Aramco and the Government agreeing on the terms of the extension. See "*Material Agreements—The Concession*". The provision of a specified term in the Concession impacts the calculation of Saudi Aramco's reserves as compared to the Kingdom's reserves in the fields Saudi Aramco operates. The Concession also requires Saudi Aramco to meet domestic demand for certain hydrocarbons, petroleum products and LPGs through domestic production or imports.

Based on the initial 40-year period and 20-year extension of the Concession, as at 31 December 2019, Saudi Aramco's reserves were 258.6 billion barrels of oil equivalent. Saudi Aramco's oil equivalent reserves consisted of 201.9 billion barrels of crude oil and condensate, 25.7 billion barrels of NGLs and 190.6 trillion standard cubic feet of natural gas. Saudi Aramco's oil equivalent reserves were sufficient for proved reserves life of 54 years.

Saudi Aramco 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 Saudi Aramco's hydrocarbon operations promote long-term productivity of the Kingdom's reservoirs and support the prudent stewardship of its hydrocarbon resources. Saudi Aramco 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 Saudi Aramco have increased since the time of original production. The organic crude oil and condensate reserves replacement ratio based on the Kingdom's reserves on a three-year rolling average from 2017 to 2019 was 106.2%. The organic oil equivalent reserves replacement ratio based on the Kingdom's reserves on a three-year rolling average from 2017 to 2019 was 131.8%. Reserves replacement ratios are calculated on reserves changes relative to net reservoir withdrawal from operated fields, rather than production volumes.

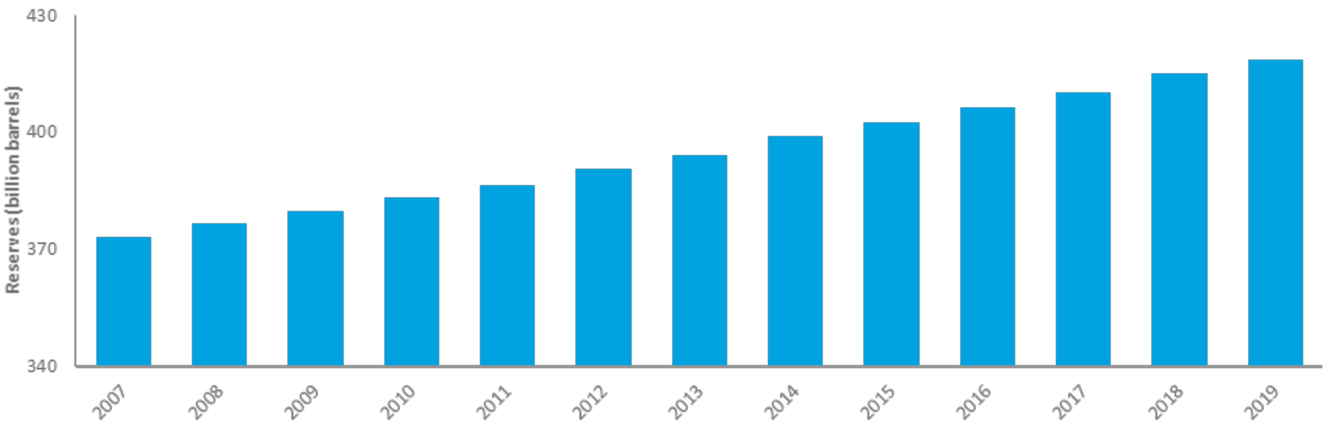
The following table sets forth Saudi Aramco's estimates of its proved reserves based on the term of the Concession.

| | **Crude Oil** | **Condensate** | **Natural Gas** | | **NGLs** | **Combined** |
|---|---|---|---|---|---|---|
| | *(mmbbl)* | *(mmbbl)* | *(bscf)* | *(mmboe)* | *(mmbbl)* | *(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 |
| Reserves as at 31 December 2019 | 198,569 | 3,338 | 190,575 | 30,933 | 25,723 | 258,563 |

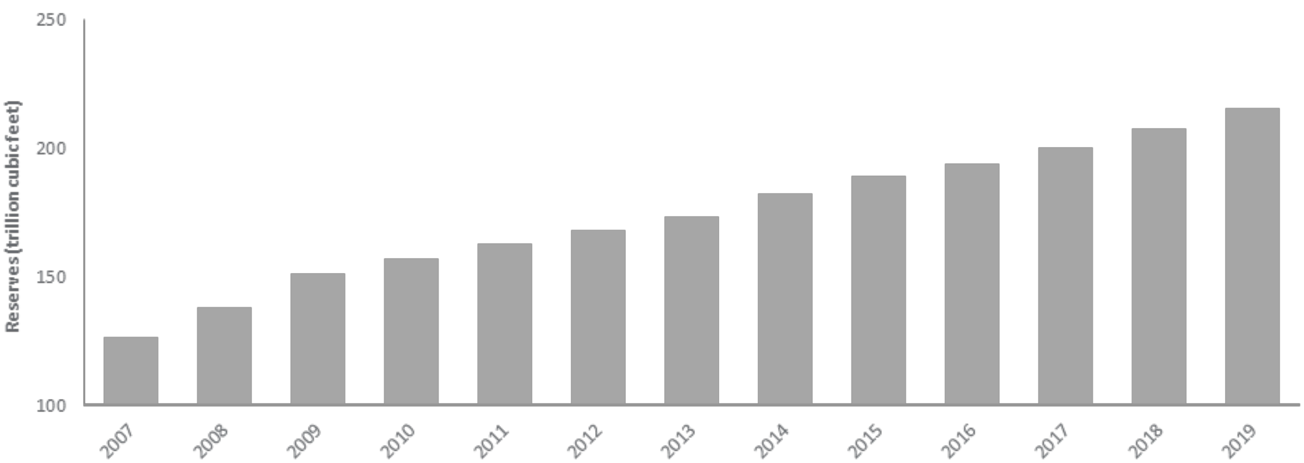
The following table sets forth the Kingdom's estimates of its proved reserves.

| | Crude Oil | Condensate | Natural Gas | | NGLs | Combined |
|---|---|---|---|---|---|---|
| | *(mmbbl)* | *(mmbbl)* | *(bscf)* | *(mmboe)* | *(mmbbl)* | *(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 |
| Reserves as at 31 December 2019....... | 257,125 | 4,410 | 237,368 | 39,119 | 36,043 | 336,697 |

The following chart shows the growth of the Kingdom's original crude oil and condensate reserves from 2007 to 2019.




The following chart shows the growth of the Kingdom's original non-associated raw gas reserves from 2007 to 2019.




Saudi Aramco's reserve estimates conform to the SPE-PRMS definitions and guidelines, which is the internationally recognised industry standard sponsored by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts and the European Association of Geoscientists and Engineers. To estimate or update Saudi Aramco'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. Saudi Aramco annually updates its estimates as it acquires and interprets new data. For reservoirs that have been producing and have established certain performance trends, Saudi Aramco is typically able to reliably forecast the reservoir's future production. For reservoirs that have little to no production history and new discoveries, Saudi Aramco undertakes further analysis in addition to multidisciplinary evaluation to formulate production forecasts.

Saudi Aramco retained independent petroleum consultants, D&M, to independently evaluate reservoirs Saudi Aramco believes accounted for approximately 85% of Saudi Aramco's proved oil reserves to which Saudi Aramco has rights under the Concession and remain to be produced after 31 December 2019 but before 31 December 2077 (the end of the initial 40-year term of the Concession plus the first 20-year extension). Saudi Aramco 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 Saudi Aramco's smaller reservoirs would have taken several years to complete. D&M's reserves certification of 214.2 billion barrels of oil equivalent reserves was within 1% of Saudi Aramco's internal estimation for the same reservoirs. A copy of the D&M certification letter, which describes its procedures, conclusions and assumptions, appears as Appendix 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 Saudi Aramco's properties and is not employed on a contingent fee basis.

*Upstream Production and Deliveries*

The following table highlights Saudi Aramco's upstream production and crude oil deliveries in 2017, 2018 and 2019:

| | Year Ended 31 December | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| **Upstream production[(1)]:** | | | |
| Crude oil[(2)] (mbpd) | 10,080 | 10,315 | 9,943 |
| Condensate[(3)] (mbpd) | 216 | 218 | 202 |
| Natural gasoline (mbpd) | 194 | 203 | 222 |
| Butane (mbpd) | 314 | 328 | 319 |
| Propane (mbpd) | 521 | 565 | 535 |
| **Total liquids (mbpd)** | **11,325** | **11,629** | **11,221** |
| Natural gas (mmscfd) | 8,733 | 8,856 | 8,978 |
| Ethane (mmscfd) | 936 | 993 | 960 |
| **Total (mmscfd)** | **9,669** | **9,849** | **9,938** |
| **Combined[(4)] (mboed)** | **13,223** | **13,567** | **13,172** |
| **In-Kingdom crude oil deliveries[(5)]:** | | | |
| In-Kingdom crude oil deliveries at unregulated prices (mbpd) | 2,606 | 2,567 | 2,461 |
| In-Kingdom crude oil deliveries at regulated prices (mbpd) | 459 | 410 | 425 |
| **Total in-Kingdom crude oil deliveries (mbpd)** | **3,065** | **2,977** | **2,886** |
| **International crude oil deliveries[(5)]:** | | | |
| Asia (ex-Kingdom) (mbpd) | 5,073 | 5,211 | 5,436 |
| North America (mbpd) | 1,005 | 1,013 | 563 |
| Europe (mbpd) | 779 | 864 | 802 |
| Other (mbpd) | 243 | 240 | 248 |
| **Total international crude oil deliveries[(2)(5)] (mbpd)** | **7,099** | **7,328** | **7,049** |
| **Total crude oil deliveries[(1)(2)(5)] (mbpd)** | **10,164** | **10,305** | **9,935** |

(1) Upstream production and crude oil deliveries do not include volumes produced from Abu Sa'fah delivered to the Kingdom of Bahrain, which was 153 mbpd, 152 mbpd and 152 mbpd for the years ended 31 December 2017, 2018 and 2019, respectively.
(2) Includes condensate blended with crude oil of 121 mbpd, 125 mbpd and 120 mbpd for the years ended 31 December 2017, 2018 and 2019, 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.

*Crude Oil and Condensate*

Exploration and Development

The majority of Saudi Aramco'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.

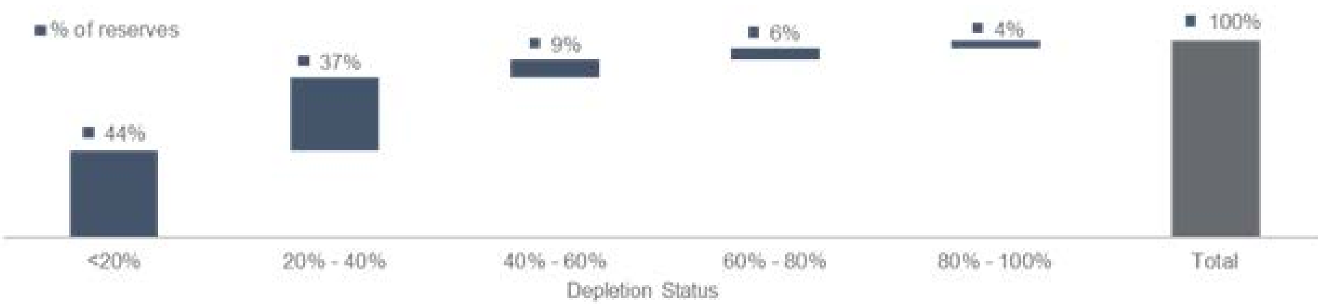
Saudi Aramco places a strong emphasis on operational performance improvement of its drilling operations by applying innovative drilling technologies and benchmarking of key metrics to identify trends and potential areas for improvement. Saudi Aramco believes that its approach to drilling and development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

Reservoir Management and Production Strategy

Saudi Aramco 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, Saudi Aramco 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. Saudi Aramco'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 Saudi Aramco's crude oil fields have been producing for many decades at low depletion rates of 1% to 2% per year relative to estimated ultimate recovery. As at 31 December 2019, 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 2019.




Saudi Aramco also aims to optimise recovery of its reserves. As at 31 December 2019, 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.

Saudi Aramco'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, Saudi Aramco employs other methods, such as re-injection of produced gas in gas caps. Given its low depletion stage, Saudi Aramco expects to continue to use these recovery mechanisms, combined with advanced technologies (for example, horizontal and multilateral wells, including wells that come into contact with more than five kilometres of the reservoir), to optimise horizontal and vertical reservoir sweep.

Ability to Optimise Supply and Value in the Event of a Market Disruption or Opportunity

The uniqueness of Saudi Aramco's reserves base provides flexibility to optimise its crude mix in response to changes in supply and demand. Saudi Aramco considers the long-term value of different crude grades, medium-term ability to market heavy crude oil grades in strategic markets and near-term requirements to efficiently respond to global market disruptions or opportunities.

The Government determines the Kingdom's maximum level of crude oil production in the exercise of its sovereign prerogative and requires Saudi Aramco to maintain MSC. Saudi Aramco maintains MSC in accordance with the Hydrocarbons Law. MSC was 12.0 million barrels of crude oil per day from 1 January 2019 to 30 September 2020. However, on 11 March 2020, the Government (acting through the Ministry of Energy) directed Saudi Aramco to increase MSC from 12.0 to 13.0 million barrels of crude oil per day. Saudi Aramco is currently evaluating the timing of, and the costs associated with, implementing the Government's directive to increase MSC. As at 30 September 2020, Saudi Aramco's MSC was 12.0 million barrels of crude oil per day.] The spare capacity afforded by maintaining MSC enables Saudi Aramco to increase its crude oil production above planned levels rapidly in response to changes in global crude oil supply and demand. Saudi Aramco also uses this spare capacity as an alternative supply option in case of unplanned production outages at any field and to maintain its production levels during routine field maintenance. In addition, Saudi Aramco holds volumes in various storage facilities to supplement operational flexibility and supply reliability.

High Quality Crude with Blend and Supply Flexibility

Saudi Aramco has consistently produced five grades of Arabian crude oil: Arabian Super Light, Arabian Extra Light, Arabian Light, Arabian Medium and Arabian Heavy. Saudi Aramco's five crude grades and the wide range of blends that can be produced from them are compatible with most refineries globally. In addition, Saudi Aramco's MSC and integrated logistics network allows Saudi Aramco to vary crude oil production, which combined with their compatibility with global refining systems, provides Saudi Aramco with a unique ability to respond to changes in demand for Saudi Aramco's crude grades. This flexibility contributes to Saudi Aramco's reputation as one of the most reliable crude oil suppliers, meeting 99.7%, 99.8% and 99.2% of its delivery obligations on time in 2017, 2018 and 2019, respectively, and 99.9% of its delivery obligations on time in the first nine months of 2020.

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 and 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.

Saudi Aramco 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 Saudi Aramco's crude oil grades and the percentage of crude oil reserves each grade accounted for as at 31 December 2019:

| | **API Gravity** | **Sulphur Content** | **% of Crude Oil Reserves** |
|---|---|---|---|
| Arabian Super Light | More than 40 | Less than 0.5 | 0.9 |
| Arabian Extra Light | 36 – 40 | 0.5 – 1.3 | 13.1 |
| Arabian Light | 32 – 36 | 1.3 – 2.2 | 34.3 |
| Arabian Medium | 29 – 32 | 2.2 – 2.9 | 17.1 |
| Arabian Heavy | Less than 29 | More than 2.9 | 34.6 |

Principal Oil Fields

Saudi Aramco's principal fields are linked to an extensive network of integrated facilities that provide it with the flexibility to send crude oil to multiple plants for processing, stabilisation and shipping.

This extensive integration is also reflected in Saudi Aramco's approach to portfolio capacity management. Saudi Aramco actively manages its prolific reserves base to maximise long-term value while optimising ultimate recovery from its fields. Saudi Aramco's resource base allows it to maintain its desired level of overall production by tapping into new reservoirs as costs rise in maturing areas, enhancing capital efficiency, increasing overall stability of production and ultimately improving total oil recoveries. Diversification of supply sources for crude oil from fresh reservoirs has the benefit of allowing lower depletion rates from existing fields and deferring costs for additional wells and facilities to handle higher total fluid displacement rates at such fields. Saudi Aramco's reservoir management and production strategy of producing reservoirs and fields in parallel at low depletion rates allows Saudi Aramco to maintain MSC at 12.0 million barrels of crude oil per day as at 30 September 2020 while controlling field related costs. See "*—Reservoir Management and Production Strategy*".

Recent Upstream Development Projects

Saudi Aramco has a long track record of executing some of the world's largest upstream capital projects in the oil and gas industry. Since the mid-1990s, Saudi Aramco has executed a series of large development projects in a variety of its fields, including Manifa, Karan, Shaybah and Khurais. Additionally, on 9 July 2019, Saudi Aramco entered into various agreements with an aggregate value of $18.0 billion to increase the combined crude oil and natural gas production capacities at the combined Berri and Marjan fields by 550,000 barrels per day and 2.5 billion standard cubic feet per day, respectively. The Berri expansion will add 250,000 barrels per day of crude oil production capacity through a new processing system at the existing Abu Ali gas oil separation plant and new onshore and offshore wells. The Marjan programme comprises an integrated development of crude oil, associated gas and non-associated gas production capacity. Crude oil production capacity at Marjan will be expanded by 300,000 barrels per day. Furthermore, the new Tanajib gas processing facility will have a gas processing capacity of 2.5 billion standard cubic feet per day.

Saudi Aramco took an innovative approach to develop the Manifa field which began production in 2013. The Manifa field is located offshore in shallow waters of the Arabian Gulf where Saudi Aramco was able to construct 27 man-made islands connected by a series of causeways. This network of offshore islands afforded Saudi Aramco the ability to employ lower-cost onshore drilling and production techniques to develop an offshore field. The islands house shallow wells, which allowed capital expenditure to be approximately 27% below a standard offshore development.

For information regarding Shaybah and Khurais, see "*—Principal Oil Fields*". For information regarding Karan, see "*—Upstream—Gas and NGLs—Principal Gas Fields*".

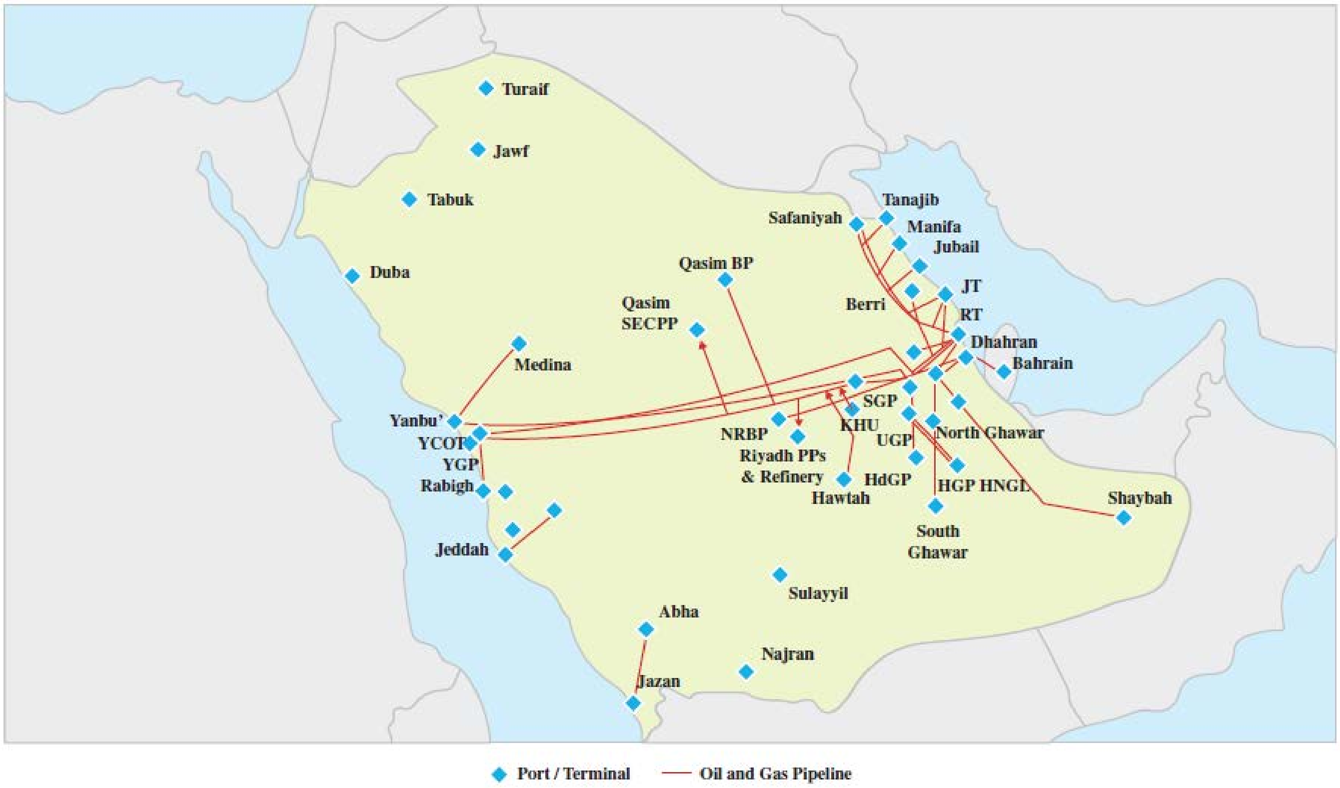
Crude Infrastructure

Saudi Aramco'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 Saudi Aramco's fields, processing plants and other facilities. The crude oil, condensate, natural gas and NGLs Saudi Aramco produces travel through its pipelines to multiple facilities for processing into refined products or to domestic customers or export terminals. For example, Saudi Aramco can send crude oil to any of its domestic refineries or directly to export terminals.

In particular, Saudi Aramco'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 2019, the East-West pipeline transported an average of 2.1 million barrels per day of crude oil. In 2019, the East-West pipeline successfully achieved temporary mechanical capacity increase from 5.0 million barrels per day to 7.0 million barrels per day through interim conversion of NGL pipelines and use of reducing agents. In addition, the Abqaiq facility processes a significant amount of Saudi Aramco's daily produced crude oil. The Abqaiq facility is Saudi Aramco's largest oil processing facility and the largest crude oil stabilisation plant in the world. Moreover, Saudi Aramco operates four crude export terminals with a total storage capacity of 66.4 million barrels as at 31 December 2019.

Saudi Aramco closely tracks its hydrocarbons in order to monitor and optimise its deliveries. Saudi Aramco 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 Saudi Aramco's crude oil processing infrastructure in relation to certain Saudi Aramco facilities.

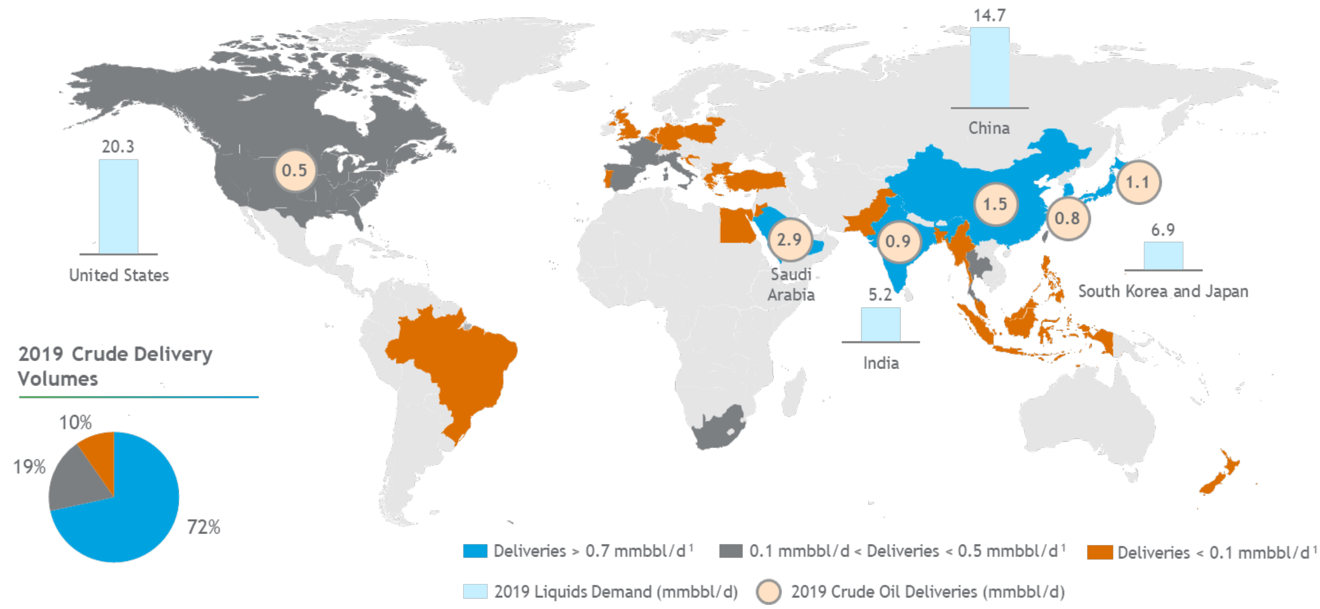
The following map illustrates the location of Saudi Aramco's crude oil processing infrastructure as at 31 December 2019.




**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

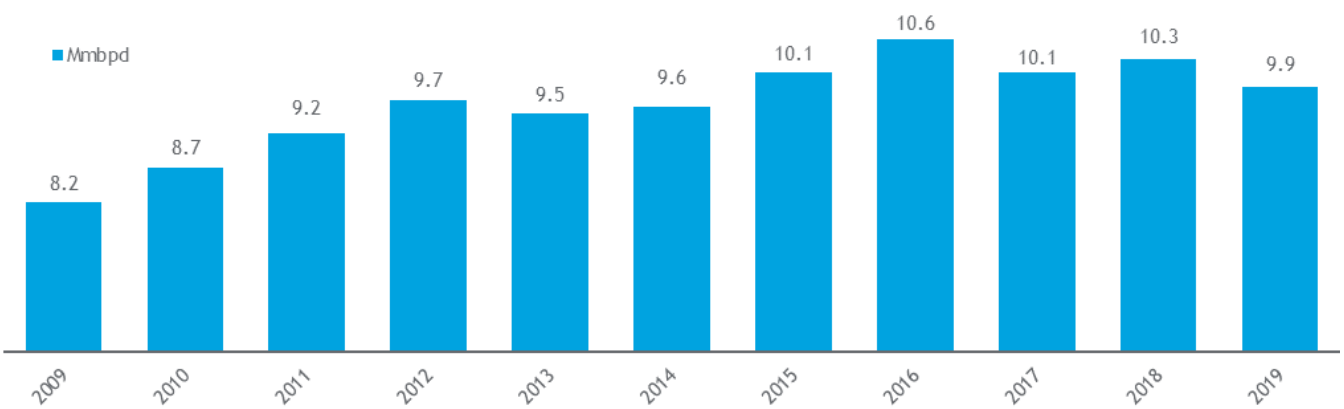
Sales and Marketing

The following map illustrates the locations of Saudi Aramco's crude oil deliveries in 2019.




___________
*Source*: Industry Consultant.
(1) Includes deliveries to Saudi Aramco's wholly owned and affiliated refineries.

The integration of Saudi Aramco across its upstream and downstream segments provides a unique opportunity for Saudi Aramco to deliver its crude oil into Saudi Aramco's downstream system, which is optimally designed to process Arabian crudes. Concurrently, Saudi Aramco has maintained its crude oil market share across the commodity price cycle. The following chart illustrates Saudi Aramco's crude oil production from 2009 to 2019.




In 2019, Saudi Aramco produced 9.9 million barrels per day of crude oil (including blended condensate), of which approximately 6.2 million barrels per day were sold to third-party customers, approximately 1.2 million barrels per day were delivered to Saudi Aramco's wholly owned and affiliated international refineries, approximately 1.6 million barrels per day were delivered to Saudi Aramco's downstream in-Kingdom affiliated refineries and approximately 0.9 million barrels per day were delivered to Saudi Aramco's wholly owned in-Kingdom refineries. As a result, Saudi Aramco's captive system of domestic and international wholly owned and affiliated refineries, consumed 38% of crude oil produced by Saudi Aramco in 2019. Sales prices of Saudi Aramco's crude oil to its in-Kingdom wholly owned refineries are based on reported selling prices for Arabian crude oil grades.

Saudi Aramco'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 Saudi Aramco 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 Saudi Aramco's crude oil to its in-Kingdom and international wholly owned and affiliated refineries.

In addition, the Concession requires Saudi Aramco to meet domestic demand for certain hydrocarbons, petroleum products and LPGs. See "*Material Agreements—The Concession*". In connection with this exclusive right, the Government mandates that crude oil and other products sold to third parties in the Kingdom are sold at regulated prices that are typically lower than the prices Saudi Aramco could obtain if it exported those products. Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020, the Government expanded the equalisation mechanism to include LPGs and certain other products. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

*Gas and NGLs*

As at 31 December 2019, Saudi Aramco had 190.6 trillion standard cubic feet of proved natural gas reserves and 25.7 billion barrels of proved NGL reserves.

In 2019, Saudi Aramco produced 9.0 billion standard cubic feet per day of natural gas, 1.0 billion standard cubic feet per day of ethane, 1.1 million barrels per day of NGLs and an additional 0.2 million barrels per day of unblended condensate. As at 31 December 2019, the total gas processing system, which feeds the MGS, an extensive network of pipelines that connects Saudi Aramco's key gas production and processing sites throughout the Kingdom, had a capacity of 17.0 billion standard cubic feet per day. The liquids stemming from gas enhance the value of Saudi Aramco's natural gas production as liquids generally command higher prices than natural gas for Saudi Aramco.

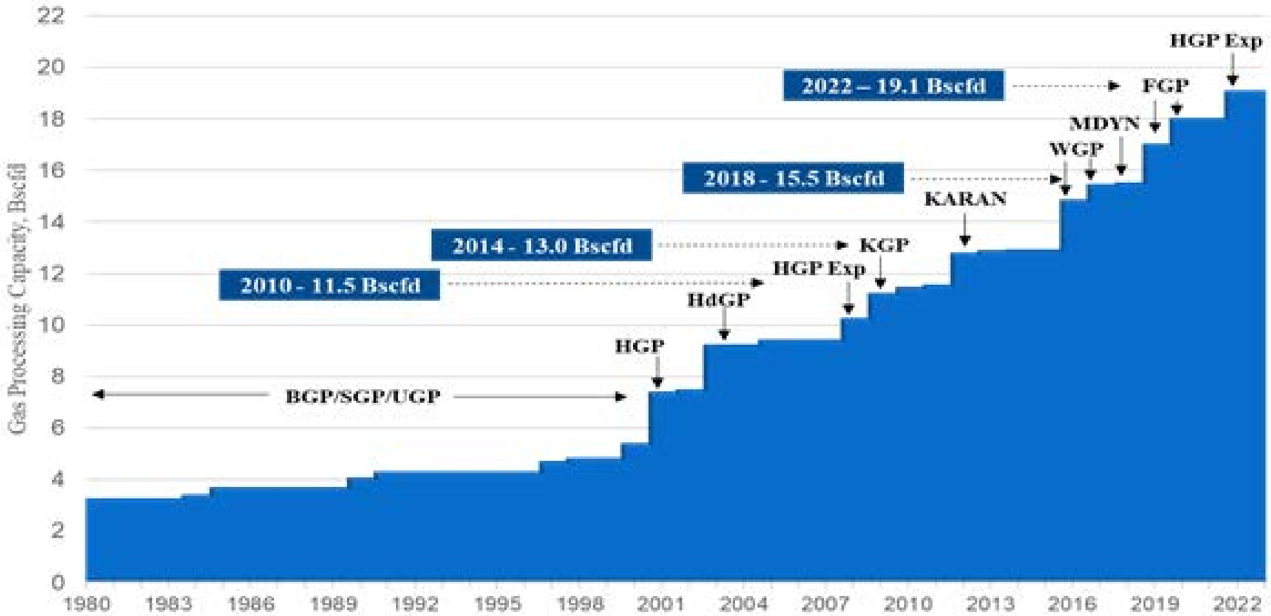
Pursuant to the Concession, Saudi Aramco is the exclusive supplier of natural gas in the Kingdom. Since 1980, Saudi Aramco has produced associated gas from oil production to supply the domestic energy marketplace, and in 1984 began producing non-associated gas to address growing domestic demand. Gas 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 3.6% from 2017 to 2030. Between 2009 and 2019, Saudi Aramco completed a number of projects which increased its gas processing capacity and the MGS. 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 an adjacent cogeneration power plant. In 2017, Saudi Aramco 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 Fadhili Gas Plant reached its full gas processing capacity of 2.5 billion standard cubic feet per day during the second quarter of 2020. The Fadhili Gas Plant produces natural gas, sulphur and low BTU natural gas to fuel a cogeneration plant for supplying electricity to the national power grid.

Saudi Aramco's gas and NGL infrastructure currently consists of the following:

- nine gas processing plants—Berri, Shedgum, 'Uthmaniyah, Hawiyah, Haradh, Khursaniyah, Wasit, Midyan and Fadhili;
- three NGL recovery straddle plants—Hawiyah, Shaybah and 'Uthmaniyah Deep Ethane Recovery Plant;
- 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 Saudi Aramco 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 2019 and planned increases through 2023 (excluding Shaybah gas processing).




**BGP/SGP/UGP** – Berri/Shedgum/'Uthmaniyah Gas Plants
**FGP** – Fadhili Gas Plant
**HdGP** – Haradh Gas Plant
**HGP** – Hawiyah Gas Plant
**HGP Exp** – Hawiyah Gas Plant Expansion
**KGP** – Khursaniyah Gas Plant
**MDYN** – Midyan
**WGP** – Wasit Gas Plant

Exploration and Production

Saudi Aramco'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 Saudi Aramco's exploration activities relate to gas. Saudi Aramco 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. Saudi Aramco 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, Saudi Aramco developed the Flaring Minimisation Programme, which began nearly four decades ago with the introduction of the MGS. The programme provided for Saudi Aramco 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, Saudi Aramco 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. Saudi Aramco remains committed to continue its efforts to further reduce flaring levels.

Reservoir Management and Production Strategy

Saudi Aramco's gas management and production strategy focuses on maximising economically recoverable gas using the best available methods and technologies. Saudi Aramco'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 Saudi Aramco 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.

Saudi Aramco 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. Saudi Aramco has experienced a gradual decrease in the gas-to-oil ratio of its production portfolio, due to an increase in heavy oil production.

Saudi Aramco 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. 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, Saudi Aramco will need to drill a significant number of wells in each area before it can draw conclusions. Saudi Aramco plans to further evaluate unconventional resources in other areas.

#### Principal Gas Fields

Saudi Aramco's crude oil production provides a base load of associated gas, which is rich in liquids. Saudi Aramco'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. Saudi Aramco's gas fields are also generally located in close proximity to its oil fields.

#### Gas Processing, NGL Recovery and Fractionation Facilities

Saudi Aramco'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 Saudi Aramco'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, Saudi Aramco is the exclusive supplier of natural gas in the Kingdom. Saudi Aramco sells natural gas to power generation plants primarily pursuant to long-term contracts and to customers in the Kingdom's industrial sector. Saudi Aramco also exports a portion of its NGL production. Saudi Aramco expects to fulfil a portion of these commitments through the development of its proved reserves.

Saudi Aramco'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*

Saudi Aramco has a large, strategically integrated global downstream business. The downstream segment's activities consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation. The downstream segment's other business activities include base oils, lubricants and retail operations.

Saudi Aramco operates its refining business through its wholly owned operations and affiliated refineries with major 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 3.6 million barrels per day as at 31 December 2019. As at 31 December 2019, Saudi Aramco had a gross refining capacity of 6.4 million barrels per day.

In 2019, Saudi Aramco's downstream operations consumed 38% of Saudi Aramco's crude oil production. Saudi Aramco 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. Saudi Aramco's downstream portfolio is highly sophisticated with full conversion refineries operated by Motiva, SATORP, YASREF and S-Oil.

Saudi Aramco'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. Saudi Aramco has entered into downstream ventures in and out of the Kingdom with major international refining and chemical companies, such as Mobil (Luberef) in 1998, Sumitomo (Petro Rabigh) in 2005, Total (SATORP) in 2008, Sinopec (YASREF) in 2010, Dow (Sadara) in 2011 and Petronas (PRefChem) in 2018. Each of Saudi Aramco 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. Saudi Aramco 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 Saudi Aramco's crude oil in large offtake volumes relative to Saudi Aramco's equity interest and capital costs.

In recent years, Saudi Aramco has begun to increase its equity interests and management participation in its affiliates in order to ensure that they are operated efficiently and profitably. For example, in 2015, Saudi Aramco 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. Saudi Aramco also has entered into transactions to fully acquire certain downstream assets formerly held as part of joint ventures. For example, on 1 May 2017, Saudi Aramco 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 Saudi Aramco. This transaction allowed Saudi Aramco 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, Saudi Aramco acquired full ownership in ARLANXEO (an associate in partnership with Lanxess). Additionally, on 18 September 2019, Saudi Aramco acquired the 50% share of SASREF from Shell that it did not already own.

Furthermore, on 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC, which significantly expanded Saudi Aramco's chemicals business. As at 30 September 2020, Saudi Aramco's chemicals business operates in over 50 countries and produced a range of chemicals. These transactions in Saudi Aramco's downstream business are meant to secure outlets for Saudi Aramco's crude oil and gas and advance Saudi Aramco's strategy to further diversify operations to capture value from strategic integration.

Moreover, on 17 December 2019, Saudi Aramco acquired a 17% equity interest in Hyundai Oilbank, an integrated refinery the portfolio of which includes oil refining, base oil, petrochemicals and a network of gas stations. As at 31 December 2019, the integrated refinery had a capacity of 650,000 barrels per day, of which Saudi Aramco's share was 110,500 barrels per day. On 31 October 2019, Saudi Aramco acquired 100% of the equity interest in Motiva Chemical, previously known as Flint Hills, which owns and operates a chemical plant located in Port Arthur, Texas, comprised of a mixed feed cracker, a cyclohexane unit, a benzene unit, NGL and ethylene pipelines and storage facilities.

Saudi Aramco continues to play an active managerial role in other ventures in its global downstream portfolio. Saudi Aramco also is exploring new opportunities for downstream investments globally.

Saudi Aramco 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. Saudi Aramco believes it can achieve a number of these improvements with low capital requirements. These increases can be safely achieved at existing refining assets as key units demonstrate an operational track record that allows Saudi Aramco to increase throughput. Moreover, Saudi Aramco'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 Saudi Aramco's refining assets.

*Acquisition of 70% Equity Interest in SABIC*

On 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for total consideration of $69.1 billion. SABIC operates in over 50 countries and produces a range of chemicals. According to its public filings, in 2019, SABIC's total production was 72.6 million tonnes, including 60.2 million tonnes of petrochemical and specialty products. As at and for the year ended 31 December 2019, SABIC's total assets were SAR 300.5 billion, net income was SAR 8.5 billion and total revenue was SAR 139.7 billion. As at and for the nine months ended 30 September 2020, SABIC's total assets were SAR 290.0 billion, net loss was SAR 1.6 billion and total revenue was SAR 84.1 billion. The value of SABIC's total assets as at 31 December 2019 reflects SABIC's restatement of its balance sheet as at 31 December 2019. The restatement was carried out in connection with changes SABIC made to its accounting treatment of certain non-wholly owned subsidiaries and joint arrangements after Saudi Aramco's acquisition of a 70% equity interest in SABIC. These changes were made to align SABIC's significant accounting estimates, assumptions and judgments with those of Saudi Aramco. For further information on these restatements, see page F-296.

Saudi Aramco believes that purchasing this majority interest in SABIC advances its strategy to increase the proportion of petrochemicals production in its downstream portfolio and supports Saudi Aramco's downstream growth ambitions. In addition, Saudi Aramco believes that the acquisition facilitates the application of SABIC's expertise in the chemicals industry to Saudi Aramco's existing and future integrated downstream facilities.

The 27 March 2019 purchase agreement provided that the purchase price for the acquisition would be paid on the closing date in the form of a cash payment equal to 50% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 50% of the purchase price with the last payment due on or before 31 December 2021. On 6 October 2019, Saudi Aramco and the PIF agreed to amend the payment terms to provide that, on the closing date, 36% of the purchase price (to be adjusted for certain expenses) would be paid in cash and 64% would be paid in the form of a seller loan with the last payment due on or before 30 September 2025. On 16 June 2020, the Issuer and the PIF agreed to further amend the payment terms to provide that the entire purchase price would be paid over several instalments pursuant to a seller loan provided by the PIF. A loan payment of $7.0 billion was paid on 2 August 2020. Future loan payments, which are represented by promissory notes, are payable between 7 April 2021 and 7 April 2028 (the last payment) as follows:

(i) on or before 7 April 2021, an amount equal to $5.0 billion;

(ii) on or before 7 April 2022, an amount equal to $8.5 billion plus a loan charge of $500.0 million (subject to reduction by $300.0 million in the event that the accelerated payment described below is made);

(iii) on or before 7 April 2023, an amount equal to $10.5 billion plus a loan charge of $500.0 million;

(iv) on or before 7 April 2024, an amount equal to $10.5 billion plus a loan charge of $600.0 million;

(v) on or before 7 April 2025, an amount equal to $10.5 billion plus a loan charge of $800.0 million;

(vi) on or before 7 April 2026, an amount equal to $17.1 billion (*provided* that (a) $3.0 billion of such amount is subject to acceleration as described below and (b) such amount will be reduced by the amount of any withholding taxes and similar amounts that the Issuer incurs with respect to payments made under any promissory note as a result of the PIF's transfer thereof to a transferee who is not tax resident in the Kingdom) plus a loan charge of $1.5 billion;

(vii) on or before 7 April 2027, a loan charge of $1.0 billion (subject to reduction to reflect certain withholding amounts as described above); and

(viii) on or before 7 April 2028, a loan charge of $1.0 billion (subject to reduction to reflect certain withholding amounts as described above).

In the event that the average Brent price during 2021 meets or exceeds $60.0 per barrel and the Issuer's average daily production of crude oil during 2021 exceeds 10 million barrels per day, the Issuer will be required to pay $3.0 billion of the payment otherwise due in April 2026 on 7 April 2022 (the "**Early Payment Event**").

Subject to the exceptions set forth below, the promissory notes are freely 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 any promissory note, Saudi Aramco may within 30 days of receiving notice of the offer or commitment, notify the PIF in writing of its intent to purchase all or a portion of the promissory notes to be transferred on the same terms. To the extent Saudi Aramco does not elect to purchase the promissory notes to be transferred, the PIF may transfer such promissory note during the subsequent 120 day period. In addition, the PIF may not transfer, assign or pledge prior to 8 April 2022 promissory notes with aggregate initial principal outstanding balances of (i) $300.0 million and a payment date of 7 April 2022 and (ii) $3.0 billion and a payment date of 7 April 2026; *provided* that, if the Issuer determines that the Early Payment Event will not occur by 8 April 2022, it is required to notify the PIF and the restrictions on transfer will terminate. Each such promissory note must be surrendered for cancellation in the event the accelerated payment described above is made. Furthermore, the PIF may not transfer, assign or pledge at any time promissory notes with aggregate initial principal outstanding balances of (i) $3.5 billion and a payment date of 7 April 2026, (ii) $250.0 million and a payment date of 7 April 2027 and (iii) $250.0 million and a payment date of 7 April 2028. Saudi Aramco currently intends to repay the promissory notes in a phased manner through cash from operations, external debt financing or a combination thereof.

As part of the 16 June 2020 amendment to the purchase agreement, the Issuer agreed to enter into foreign exchange transactions with banking institutions mutually agreed to between Issuer and the PIF to exchange U.S. Dollars for Saudi Riyals. The aggregate amount of these foreign exchange transactions is (i) up to $2.0 billion between 16 June and 2 August 2020, (ii) up to $3.0 billion in 2021 and (iii) up to $2.0 billion in 2022. In connection therewith, between 16 June and 2 August 2020, the Issuer exchanged an aggregate amount of $2.0 billion for Saudi Riyals.

*Refining*

Saudi Aramco operates one of the world's largest refining businesses, with gross refining capacity of 6.4 million barrels per day for 2019. Saudi Aramco's refining operations allow it to transform its crude oil and natural gas into refined products and chemicals for sale within the Kingdom and internationally. Saudi Aramco specifically designs and configures its refining system to optimise production using the crude grades Saudi Aramco produces, which helps improve supply chain cost and operational efficiency in its refining operations and therefore supply of refined products to its downstream customers.

Saudi Aramco's refining operations are conducted in the Kingdom and internationally through wholly owned and affiliated refineries. The following table sets forth the gross refining capacity of Saudi Aramco's refineries as at 31 December 2019:

| | **Capacity** |
|---|---|
| | *(mbpd)* |
| Domestic wholly owned | 1,235 |
| Domestic affiliated | 1,670 |
| International | 3,479 |

Saudi Aramco's strategy is to continue increasing its domestic 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 Saudi Aramco's downstream strategy, Saudi Aramco has invested in two refining and petrochemical joint ventures with Petronas, the Malaysian NOC, collectively known as PRefChem. The PRefChem joint ventures include a 300,000 barrel per day refinery, an integrated steam cracker with capacity to produce 1.3 million tonnes of ethylene with associated propylene, butadiene, benzene, polyolefins and ethylene glycol facilities, all of which are located in Johor, Malaysia, adjacent to Singapore, Asia's refined products trading hub. These facilities have commenced start-up in the second half of 2019; however, following a fire incident in March 2020, operations were put on hold and are expected to restart-up in the first half of 2021. Saudi Aramco will provide a significant portion of PRefChem's crude supply under a long-term supply agreement. Saudi Aramco believes this presents an expansion opportunity in Southeast Asia and offers new geographies for its crude oil production.

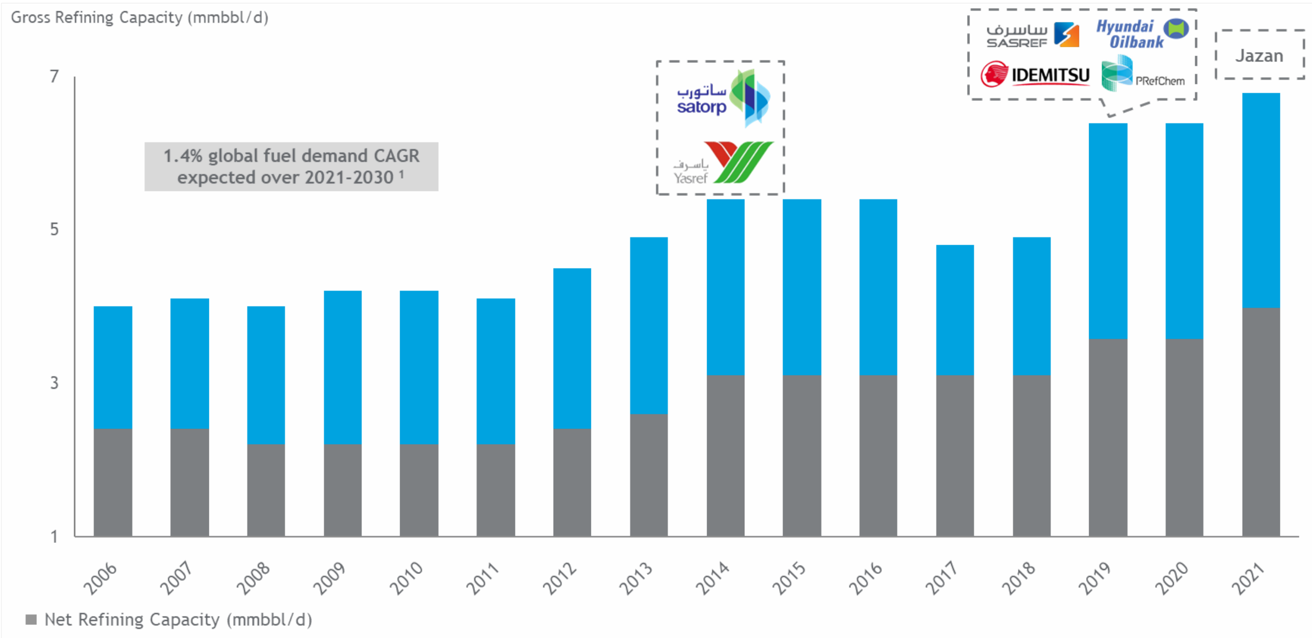
Other recent investments in Saudi Aramco's refining portfolio include Jazan, which is expected to be ready for full operations in the first half of 2021, and a residue upgrading and petrochemicals complex project at S-Oil which was commissioned in 2018.

Saudi Aramco seeks to optimise its production of refined products and maximise refinery and petrochemical utilisation and margins. The following table sets forth Saudi Aramco's consolidated and equity share of production volume for its principal refined products for each of 2017, 2018 and 2019:

| | **Year Ended 31 December** | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| **Consolidated basis(1):** | | *(mbpd)* | |
| Diesel | 747 | 762 | 700 |
| Gasoline | 422 | 416 | 396 |
| Jet fuel/kerosene | 145 | 156 | 132 |
| Fuel oil | 345 | 315 | 176 |
| Other(2) | 233 | 235 | 258 |
| **Total domestic refinery production(3)** | **1,891** | **1,884** | **1,661** |
| Diesel | 342 | 447 | 424 |
| Gasoline | 212 | 312 | 335 |
| Jet fuel/kerosene | 167 | 194 | 184 |
| Fuel oil | 109 | 97 | 73 |
| Other(2) | 276 | 306 | 293 |
| **Total international refinery production(4)** | **1,106** | **1,356** | **1,309** |
| **Total production –consolidated basis** | **2,998** | **3,239** | **2,970** |
| **Equity basis(5):** | | | |
| Total domestic refinery production | 1,891 | 1,884 | 1,804 |
| Total international refinery production(6) | 1,148 | 1,193 | 1,240 |
| **Total production – equity basis** | **3,039** | **3,077** | **3,043** |

(1) Represents production from Saudi Aramco 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, in 2017 and 2018, Saudi Aramco recognised its equity share of production from all domestic refineries. 2019 includes certain reclassifications to reflect presentational changes in the 2019 Financial Statements. Please see Note 2(dd) to the 2019 Financial Statements.
(4) Includes 100% of S-Oil production for all periods presented and 100% of Motiva production after 1 May 2017.
(5) Represents production from Saudi Aramco and its affiliated entities on the basis of Saudi Aramco's equity stake in such entities.
(6) Idemitsu Kosan and Hyundai Oilbank production volumes are based on estimates.

The following chart illustrates the changes in Saudi Aramco's refining capacity from 2006 to 2019 and expected expansion to 2021.




*Source*: Industry Consultant.

(1) Fuel demand includes LPG, naphtha, kerosene, gasoline, gasoil and fuel oil.

Saudi Aramco's consolidated share of its global refining system produced 3.0 million barrels per day of refined products in 2019. In general, with respect to Saudi Aramco'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. Saudi Aramco 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.

<u>Domestic Refining</u>

The majority of Saudi Aramco's refining operations are located in the Kingdom. Saudi Aramco's domestic wholly owned and affiliated refineries receive all their crude oil, NGLs and natural gas supply from Saudi Aramco's upstream production. As a result, in 2019, Saudi Aramco placed 25% of its crude oil production, or 2.5 million barrels per day, to its domestic refineries. In addition, 0.2 million barrels per day of condensate were placed to Saudi Aramco's domestic refineries in 2019. Saudi Aramco'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 though Saudi Aramco's pipelines, distribution and terminals system. The balance of Saudi Aramco's share of domestically refined products is exported internationally by its sales and trading arm. For further information regarding Saudi Aramco's supply and trading, see "—*Supply and Trading*".

Domestic Wholly Owned Refining Operations

Once Jazan becomes fully operational, Saudi Aramco will have five 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, Saudi Aramco closed the Jeddah refinery and converted the complex to a distribution hub.

The following table provides data about Saudi Aramco's domestic wholly owned refineries as at 31 December 2019:

| | Asset Type | Capacity | Throughput | Utilisation |
|---|---|---|---|---|
| | | *(mbpd)* | *(mbpd)* | *(%)* |
| Ras Tanura | Refining | 550 | 519 | 94 |
| Yanbu' | Refining | 250 | 210 | 84 |
| Riyadh | Refining | 130 | 124 | 95 |
| SASREF[(1)] | Refining | 305 | 224 | 73 |
| **Total/average** | | **1,235** | **1,077** | **87%** |

(1) On 18 September 2019, Saudi Aramco acquired the 50% share of SASREF from Shell that it did not already own.

### Domestic Affiliated Operations

Saudi Aramco has four 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, Saudi Aramco has the right to supply all crude processed at these refineries. In 2019, Saudi Aramco placed 16% of its crude oil production, or 1.6 million barrels per day, to its domestic affiliated refineries. All four of these domestic refineries manufacture products both for domestic consumption and export.

The following table provides data about Saudi Aramco's domestic affiliated refineries as at 31 December 2019:

| | Asset Type | Capacity | Throughput | Economic Interest | Utilisation | Partner |
|---|---|---|---|---|---|---|
| | | *(mbpd)* | *(mbpd)* | *(%)* | *(%)* | |
| SATORP | Refining and petrochemical | 440 | 413 | 62.5 | 94 | Total |
| YASREF | Refining and petrochemical | 430 | 427 | 62.5 | 99 | Sinopec |
| SAMREF | Refining | 400 | 361 | 50.0 | 90 | ExxonMobil |
| Petro Rabigh | Refining and petrochemical | 400 | 372 | 37.5 | 93 | Sumitomo |
| **Total/average** | | **1,670** | **1,573** | | **94%** | |

### International Refining

Saudi Aramco's international refining footprint is focussed in key growth geographies, particularly in Asia, that offer an opportunity for Saudi Aramco to place its crude oil and reach new customers in growing economies that are net importers of crude oil. In 2019, Saudi Aramco's net refining capacity for its operational international wholly owned and affiliated refineries was 1.5 million barrels per day. That year, Saudi Aramco supplied 1.2 million barrels per day of crude oil to its international wholly owned and affiliated refineries. Product sales by Saudi Aramco's international ventures are generally facilitated by a distribution system owned by the respective joint venture through over 17,000 branded company-owned company-operated or dealer-owned dealer-operated retail networks.

The following table provides data about Saudi Aramco's international refining and marketing operations as at 31 December 2019:

| | Asset type | Location | Gross Refining Capacity | Throughput | Economic Interest | Utilisation | Partner | Retail sites |
|---|---|---|---|---|---|---|---|---|
| | | | *(mbpd)* | *(mbpd)* | *(%)* | *(%)* | | |
| Motiva (Port Arthur Refinery) | Refining and petrochemical | U.S. | 635 | 567 | 100.0 | 89 | — | 5,300 |
| S-Oil | Refining and petrochemical | South Korea | 669 | 632 | 61.6(1) | 94 | — | >2,100 |
| Hyundai Oilbank | Refining and petrochemical | South Korea | 650 | N/A(3) | 17.0 | N/A(3) | Hyundai Oilbank | >2,200 |
| FREP | Refining and petrochemical | China | 280 | 227 | 25.0 | 81 | Sinopec, ExxonMobil | N/A |
| SSPC | Marketing | China | — | — | 22.5 | — | Sinopec, ExxonMobil | 944 |
| Idemitsu Kosan | Refining and petrochemical | Japan | 945 | 822 | 7.7(2) | 87 | | 6,500 |
| PRefChem | Refining and petrochemical | Malaysia | 300 | 97 | 50.0 | 32 | Petronas | N/A |
| **Total/average** | | | **3,479** | **2,345** | | | | |

(1) Economic interest in S-Oil on a fully diluted basis. On a non-diluted basis, Saudi Aramco's shareholding in S-Oil is 63.4%.
(2) On 1 April 2019, Idemitsu Kosan consummated a merger with Showa Shell Sekiyu, resulting in Saudi Aramco having a 7.7% equity interest in Idemitsu Kosan.
(3) Throughput and, therefore, utilisation for Hyundai Oilbank are not publically available.

Base Oil Products

In 2017, Saudi Aramco 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. Saudi Aramco supplies its products under these trademarks, to customers all over the globe through its strategically and geographically positioned affiliated companies (Luberef, Motiva, and S-Oil).

Three of Saudi Aramco's downstream facilities, Luberef, Motiva and S-Oil, are major producers of Group I, Group II and Group III base oils. In 2019, Saudi Aramco sold 4.2 million tonnes of base oils. Saudi Aramco-affiliated companies formed an alliance with a mission to deliver high quality technically differentiated products to its customer. This is achieved by ensuring products pass stringent technical quality tests conducted by The American Petroleum Institute (API), the Technical Association of the European Lubricants Industry (ATIEL), and the European Automobile Manufacturers' Association (ACEA).

*Retail Operations*

In 2019, Saudi Aramco continued to grow its fuel retail presence through its affiliates. Through Saudi Aramco's ownership in Motiva, Saudi Aramco operates 5,300 service stations located in the United States. In addition, through its other subsidiaries, affiliates and investments, Saudi Aramco has an interest in and supplies refined products to more than 5,200 service stations in China & South Korea and 6,500 service stations in Japan.

On 14 February 2019, Saudi Aramco grew its service stations business and increased access to in-Kingdom retail customers by entering into a 50:50 joint venture with Total to operate service stations in the Kingdom. On 17 June 2019, Saudi Aramco and Total also entered into an agreement to acquire a network of 270 service stations and a fuel tanker fleet in the Kingdom under the "Sahel" brand name. Saudi Aramco and Total intend to rebrand these newly acquired service stations in the future.

*Chemicals*

Saudi Aramco's chemicals business represents an extension of the hydrocarbon value chain and strategically complements its refining operations. As at 30 September 2020, Saudi Aramco's chemicals business (including through its interests in SABIC) operates in over 50 countries and produces a range of chemicals.

The recent acquisition of a 70% equity interest in SABIC helps support Saudi Aramco's long-term chemicals growth strategy.

The following table sets forth SABIC's net production capacity for certain petrochemical products as at 31 December 2019:

| | Net Production Capacity |
|---|---|
| | *(in thousand tonnes per annum)* |
| Ethylene | 11,344 |
| Polyethylene | 5,874 |
| Monoethylene glycol | 2,788 |
| Polypropylene | 3,784 |

*Source*: Industry Consultant

SABIC's other remaining business units comprise (i) the specialties strategic business unit, focussing on specialty plastics, (ii) the agri-nutrients strategic business unit, relating to fertilisers and specialty agri-nutrients, and (iii) Hadeed, a wholly-owned manufacturing business, which supplies iron, steel and aluminium products principally to customers in the Kingdom.

Saudi Aramco Chemicals Facilities

The following table provides data and descriptions concerning Saudi Aramco's standalone chemicals facilities as at 31 December 2019. Saudi Aramco uses the term standalone chemicals facilities to refer to chemicals production facilities in which refined products are not also produced.

| | Equity Interest | Location | Chemicals Production |
|---|---|---|---|
| Sadara | 65.0% | Kingdom | Olefins, polyethylene, ethylene oxide, butyl glycol, amines, propylene oxide, propylene glycol, polyols, isocyanates |
| ARLANXEO | 100.0% | Netherlands | Synthetic rubber and elastomers |

In addition to its standalone chemicals facilities, Saudi Aramco's integrated refining and chemicals business includes the following operations as at 31 December 2019.

| | Equity Interest | Location | Chemicals Production |
|---|---|---|---|
| **Domestic Operations:** | | | |
| SATORP | 62.5% | Kingdom | Benzene, Paraxylene, Propylene |
| YASREF | 62.5% | Kingdom | Benzene |
| SASREF[(1)] | 100.0% | Kingdom | Benzene |
| Petro Rabigh | 37.5% | Kingdom | Ethylene, Propylene, Polyethylene, Polypropylene, Propylene Oxide, Paraxylene, Benzene, Monoethylene glycol, Phenol/acetone, Poly-methyl-methacrylate, Nylon |
| **International Operations:** | | | |
| S-Oil | 61.6%[(2)] | South Korea | Paraxylene, Benzene, Toluene, Xylene, Propylene, Polypropylene, Propylene oxide |
| PRefChem | 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 |
| Hyundai Oilbank | 17.0% | South Korea | Xylene, Benzene, Paraxylene |

(1) On 18 September 2019, Saudi Aramco acquired the 50% share of SASREF from Shell that it did not already own.
(2) Economic interest in S-Oil on a fully diluted basis. On a non-diluted basis, Saudi Aramco's shareholding in S-Oil is 63.4%.

Saudi Aramco's refinery assets are located in close proximity to major industrial and manufacturing hubs and, given their locations, have potential for asset upgrades. Their locations also present significant opportunities to develop petrochemical complexes and associated value parks adjacent to the refining sites, similar to the PlasChem Park adjacent to the Sadara facilities and the PlusTech Park adjacent to the Petro Rabigh facilities. The Petro Rabigh facility includes a 1.58 million tonne per year ethylene cracker, a 0.92 million tonne per year propylene fluid catalytic cracking unit and a 1.34 million tonne per year paraxylene complex, with associated polyethylene, polypropylene, phenol/acetone, ethylene glycol, propylene oxide and speciality polymer plants.

Commodity Petrochemicals (Olefins and Aromatics)

Saudi Aramco 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 Saudi Aramco's primary chemical product and is the most widely-used chemical in the petrochemical industry. Saudi Aramco 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 Saudi Aramco's primary product and is the most widely-used chemical in the petrochemical industry.

Differentiated Petrochemicals (Polyolefin, Elastomers and Polyurethanes)

*Polyolefin*. Saudi Aramco'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 a major global supplier of such products.

*Polyurethanes*. Propylene oxide, polyols and isocyanates are the essential building blocks for the polyurethane industry, with end uses in automotives, furniture, construction, appliances, coatings and adhesives.

The following table sets forth Saudi Aramco's gross production capacity and net production capacity for each type of its commodity petrochemicals, principal polyolefins, synthetic rubber and elastomers and other chemicals as at 31 December 2019:

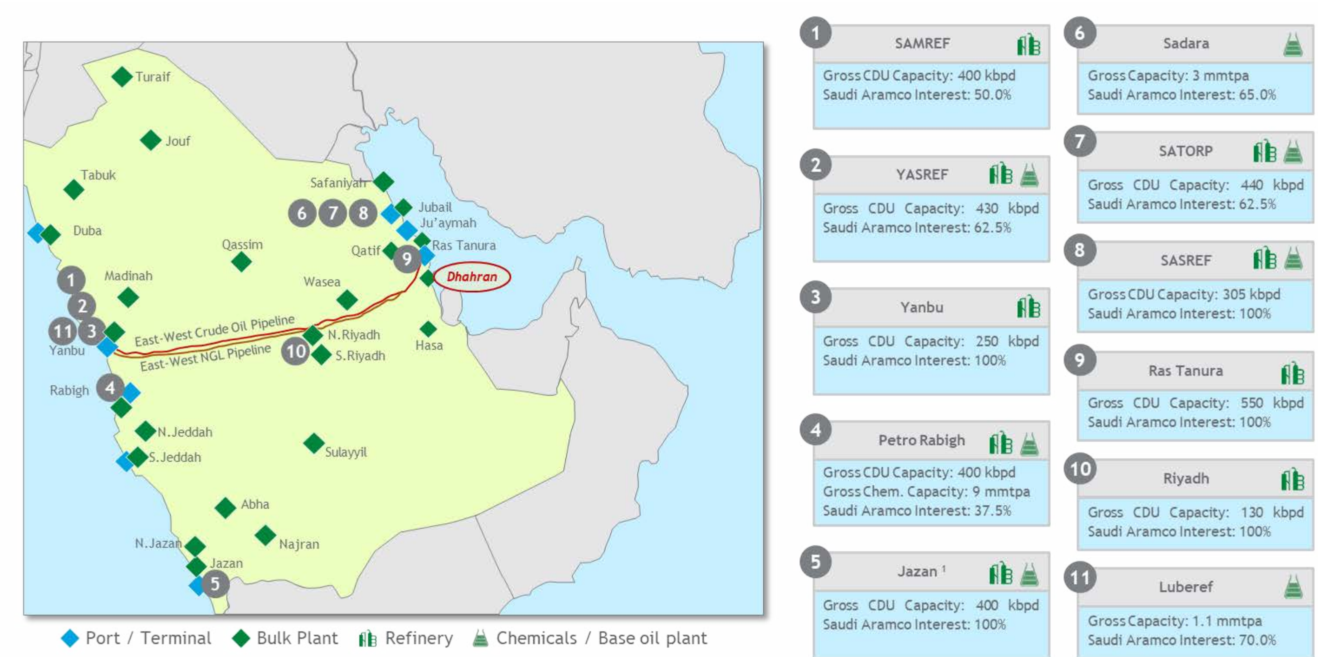
| | Gross Production Capacity | Net Production Capacity |
|---|---|---|
| | *(in thousand tonnes per annum)* | |
| **Commodity petrochemicals:** | | |
| Ethylene | 6,904 | 3,335 |
| Monoethylene glycol | 1,740 | 695 |
| Propylene | 6,820 | 3,026 |
| Butadiene | 353 | 135 |
| Paraxylene | 6,332 | 2,497 |
| Benzene | 3,371 | 1,499 |
| Other aromatics | 3,357 | 1,187 |
| **Principal polyolefins:** | | |
| Polyethylene | 3,748 | 1,691 |
| Polypropylene | 2,701 | 1,145 |
| **Synthetic rubber and elastomers:** | | |
| Synthetic rubber and elastomers | 2,039 | 1,915 |
| **Other chemicals (including polyurethanes):** | | |
| Intermediates | 1,515 | 789 |
| Derivatives (excluding monoethylene glycol) | 7,262 | 3,738 |

*Pipelines, Distribution and Terminals*

Saudi Aramco 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, Saudi Aramco has made significant investments in Saudi Aramco'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 Saudi Aramco. OSPAS gains unique domestic market insights from a wide variety of sources, including Saudi Aramco's customers, product supply and price data and trading and marketing networks. OSPAS then conveys these market insights to the upstream and downstream businesses to optimise operations. In addition, Saudi Aramco'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, Saudi Aramco is a partner in a joint venture with a 15% equity ownership interest, The Arab Petroleum Pipeline Company (Sumed Company), which operates the Sumed pipeline, an oil pipeline that runs from the Red Sea to the Mediterranean Sea through Egypt and provides an alternative to the Suez Canal.

The following map illustrates Saudi Aramco's key domestic downstream infrastructure as at 31 December 2019.




(1) Jazan is expected to be fully operational in the first half of 2021.

*Supply and Trading*

In 2019, Saudi Aramco traded an average of 4.5 million barrels per day of crude and refined petroleum products, 2.2 million tonnes of liquid chemical products and 1.4 million tonnes of polymers. Saudi Aramco trades internationally and delivers its refined products to customers using spot-chartered and time-chartered vessels.

With the recent increase in scale of its downstream operations, Saudi Aramco 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 its trading business, Saudi Aramco 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 Systems*

As at 31 December 2019, Saudi Aramco's power operations comprised 16 captive power plants and associated transmission and distribution assets located in the Northern, Central, Western and Southern areas of the Kingdom. These assets are primarily designed to provide electricity and steam to Saudi Aramco's upstream oil and gas production facilities, gas processing plants and wholly owned downstream refineries in a safe, reliable, efficient and profitable manner. Certain of these power assets are wholly owned by Saudi Aramco and some are owned by joint ventures in which Saudi Aramco has an ownership interest. Saudi Aramco also enters into offtake arrangements with independent power producers. In addition, Saudi Aramco currently owns a 6.9% stake in Saudi

Electricity Company, the Kingdom's national electricity utility company, and a 24.8% stake in Marafiq, a domestic utility company that serves the industrial areas of Jubail and Yanbu'.

As at 31 December 2019, Saudi Aramco had 6.5 gigawatts of power generation capacity as further detailed in the following table:

| Power Supply Model | Total Capacity | Ownership Interest | Offtake Entitlement / Contractual Obligation |
|---|---|---|---|
| Wholly owned by Saudi Aramco | 3,948 megawatts | 100% | N/A |
| Joint ventures | 902 megawatts | 50%(1) | 902 megawatts |
| Owned by third-party power producers | 1,642 megawatts | 0%(2) | 1,642 megawatts |

(1) These power plants will be transferred to Saudi Aramco in 2037 pursuant to an agreement among the joint venture partners for no further consideration.
(2) These power plants will be transferred to Saudi Aramco in 2026 pursuant to an agreement among the joint venture partners for no further consideration.

In 2019, Saudi Aramco generated 4.8 gigawatts of power, of which 3.3 gigawatts of wheeled power was used to meet internal demand and 1.5 gigawatts of spill power was transferred to the national grid. Saudi Aramco has made recent investments through Power Cogeneration Plant Company (PCPC), a joint venture arrangement that brought online a total of 902 megawatts of capacity from generation facilities at Abqaiq, Hawiyah and Ras Tanura. Saudi Aramco believes that cogeneration facilities benefit both its operations and the Kingdom because cogeneration facilities supply cost effective power and steam to Saudi Aramco's operations, with excess power transferred to the national grid.

Saudi Aramco expects its power generation capacity to grow to 12.1 gigawatts by the end of 2022. This capacity is inclusive of affiliated and third-party generation assets where Saudi Aramco has a long-term offtake agreement, an ownership interest, or both. Saudi Aramco anticipates that its power business will continue to pursue other growth opportunities.

### Geographic Locations and Operations

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

### Technology, Research and Development

Saudi Aramco assesses, develops and incorporates new technology in a manner tailored to Saudi Aramco'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. For the year ended 31 December 2019, 524 patents were granted to Saudi Aramco by the United States Patent and Trademark Office. The scale of Saudi Aramco's hydrocarbon reserves and operational capabilities enable it to realise significant benefits and value from technology development and deployment that would otherwise provide only incremental benefits.

Saudi Aramco focusses its technology initiatives in three areas: upstream, downstream and sustainability, and recognises the importance of embedding technology in its strategy and business culture. Upstream technology development is directed primarily to improving methods for discovering new hydrocarbon reserves, improving oil recovery, increasing productivity and reducing lifting costs. Downstream technology development is dedicated primarily to maximising value across the hydrocarbon chain, finding new and improved methods of producing products and diversifying revenue streams. Sustainability technology development is aimed at addressing global energy demand challenges, growing non-fuel applications for crude oil, sustaining low carbon intensity crude oil, advancing sustainable transport and driving high-impact low carbon intensity solutions in response to climate change concerns.

Saudi Aramco manages a global network of research and technology centres aimed at delivering innovative breakthroughs to achieve its recovery, discovery, diversification and sustainability objectives. Key examples of such technologies under development include the following:

- *TeraPOWERS* is Saudi Aramco's proprietary cornerstone modelling technology that is an evolutionary step from giga-cell to terra-cell reservoir simulation. TeraPOWERS uses over one trillion cells to simulate parallel basin and reservoir fluid movement with detail beyond that of other simulator technologies. This technology enables Saudi Aramco to model the physics of its reservoirs to prioritise prospects, reduce exploration risks and costs and sustainably manage its reservoirs.

- *Digital ARC* is a platform that hosts and integrates Saudi Aramco's in-house developed technologies spanning its upstream segment with the goal of maximising the value of these technologies and accelerating the upstream segment's digital transformation. In its next iteration, the Digital Arc is expected to be able to use artificial intelligence and deep-learning to create solutions from Saudi Aramco's digital data lake with the goal of increasing hydrocarbon discovery and improving production efficiency.

- *GeoDRIVE* is an integrated seismic imaging platform that enables ultra-high resolution subsurface mapping and characterisation for geophysical applications. This platform enables Saudi Aramco to efficiently analyse large amounts of seismic data with state-of-the-art imaging algorithms.

- *Smart Flooding* is a technology designed specifically to increase oil recovery in Saudi Aramco's carbonate reservoirs by optimising the composition and properties of injected water. Saudi Aramco is able to deploy this technology through existing infrastructure.

- *Thermal Crude to Chemicals* involves pre-treating crude oil to enable it to be directly introduced into a steam cracker with the goal of increasing chemical product yields from oil to upwards of 70%, while also reducing capital costs.

- *Catalytic Crude to Chemicals* involves the direct cracking of crude oil in a high severity catalytic cracking reactor after first flashing the crude oil into low and high boiling streams. The aim of this technology is to increase chemical product yields from oil to upwards of 60% at lower capital costs.

- *Advanced Transport Technologies* involve in-house research and collaboration with engine technology developers and major automakers to improve internal combustion engine efficiency and reduce greenhouse gas and tailpipe emissions through new engine designs and fuel formulations.

- *Carbon Capture, Utilisation and Storage* includes the development of innovative technologies to capture and store carbon dioxide or utilise it in novel materials.

Saudi Aramco also invests in start-up companies with technologies Saudi Aramco believes are strategic to its operations. These investments are primarily made in technology supporting the upstream and downstream oil and gas, petrochemical, water and renewable energy sectors.

**IT and Cybersecurity**

Saudi Aramco relies on the security of information technology and operational technology systems. It has programmes, controls and processes in place designed to protect its data and systems, to ensure business continuity and operational recovery and to repel intrusion attempts. To respond to an ever-changing cyber threat landscape, Saudi Aramco has instituted a cybersecurity governance management model for its operations in the Kingdom, led by a Chief Information Security Officer, whose office establishes and maintains cybersecurity policies, directs the cybersecurity programmes and mandates relevant processes, capabilities and technologies. Saudi Aramco addresses cybersecurity at senior levels, including Board of Directors consideration and oversight of Saudi Aramco's cybersecurity posture and assessment of risks.

One of Saudi Aramco'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

Saudi Aramco continuously monitors for security events from multiple locations. This infrastructure reaches remote areas and connects Saudi Aramco's upstream and downstream hydrocarbon facilities, including cross-country pipelines. Saudi Aramco's infrastructure also includes satellite services that extend connectivity to both offshore and onshore drilling operations and marine services. Saudi Aramco's infrastructure additionally includes a high availability (Tier-4) Corporate Data Centre, and a remote Disaster Recovery Site to further promote resilience and recovery.

Despite the presence of cybersecurity programmes, controls and processes, attempts to gain unauthorised access to Saudi Aramco networks have been successful in the past, and Saudi Aramco's operations remain potentially vulnerable to additional known or unknown threats. For further information on cybersecurity risks, see "*Risk Factors—Risks related to Saudi Aramco, its Operations and Industry—Saudi Aramco's operations are dependent on the reliability and security of its IT systems*".

**Sustainability, Health and Safety and Environment**

***Sustainability***

Saudi Aramco has developed a sustainability framework in effort to embed sustainability considerations into its decision making processes, strategic planning, and investment decisions. The framework helps to identify and prioritise material sustainability issues using a system that complements Saudi Aramco's existing Enterprise Risk Management processes. Saudi Aramco's sustainability efforts are further informed through stakeholder engagement, advocacy and communication.

Saudi Aramco's Sustainability Steering Committee is responsible for ensuring that ESG issues are identified and managed to maximise long-term value creation. The Sustainability Steering Committee's membership is made up of vice presidents of Saudi Aramco representing relevant business lines and administrative areas, and is led by the Senior Vice President for Technical Services. The Sustainability Steering Committee reports to Saudi Aramco's Strategy Council and Management Committee, as appropriate.

SABIC's Sustainability Council is responsible for sustainability. The Sustainability Council is chaired by SABIC's CEO and includes executives from its strategic business units and corporate functions. SABIC's Sustainability Council ensures that sustainability is integrated throughout SABIC's business, in addition to ensuring that SABIC takes a consistent, high-level approach to sustainability in all regions, businesses and functions. SABIC's Sustainability Council is responsible for setting SABIC's sustainability vision, climate change strategy, priorities and goals and is accountable for performance against sustainability metrics.

SABIC's Sustainability Steering Committee and Corporate Sustainability Department are responsible for developing recommendations for the Sustainability Council, executing its decisions and forming cross-functional teams to collaborate on solutions to help achieve SABIC's sustainability key performance indicators.

***Health and Safety***

An enterprise-wide, organisationally-driven focus on health and safety supports Saudi Aramco's goal of protecting its workforce, preventing property losses and avoiding business interruptions, while adapting to market and operating conditions. This involves establishing and maintaining Saudi Aramco standards that utilise a continuous improvement approach commonly used throughout the industry. Additionally, Saudi Aramco's robust and exacting standards reflect low risk tolerance with rigorously applied operational safety procedures. This is complemented by procedures for crisis management and business continuity designed to provide operational resilience and the ability to quickly respond to internal or external incidents to restore operations safely and efficiently in an orderly manner. The Board of Director's Risk and HSE Committee provides strategic direction and governance on health and safety matters.

Saudi Aramco's Health, Safety, Security and Environmental Committee ("**HSSE Committee**"), which is led by the CEO and includes other selected members of corporate management, establishes Saudi Aramco's safety policy and standards covering key issues, including emergency preparedness, incident reporting and investigation, competency and training, community awareness, off-job safety, risk management and asset integrity. The HSSE Committee actively tracks and monitors the safety performance across the organisation to extend accountability and improve safety performance.

Saudi Aramco has various occupational and environmental health programmes in place to protect its workforce and various communities from hazards that may arise from its operations or activities, including the Occupational Health Hazard Assessment, Hazard Materials Communication, Comprehensive Environmental Health Assessment and Contractor Camp Environmental Health Inspection programmes.

Saudi Aramco employs a Safety Management System ("**SMS**") aligned with Saudi Aramco's safety policy that drives a disciplined approach in establishing specific safety expectations and provides a framework for managers to fulfil their safety and loss prevention obligations. Saudi Aramco continually works proactively to deliver and improve its safety performance with respect to the expectations and objectives articulated in the SMS and its underlying programmes, processes, procedures, rules, standards and instructions.

As with Saudi Aramco, a core value for SABIC is its focus on environment, health, safety and security ("**EHSS**"). SABIC is committed to maintaining high EHSS standards throughout its organisation. SABIC's culture focuses on protecting its workforce, educating customers, creating sustainable product life cycles and protecting the health of the communities where it operates. SABIC's focus on EHSS is achieved by developing a strong, supportive culture in which EHSS is core to its operations and business.

SABIC's EHSS Policy provides an overall direction to the whole organisation and forms the basis which drives its efforts towards improvements in EHSS. The EHSS Policy sets out SABIC's responsibilities, including compliance with all applicable EHSS laws and regulations assessing and managing EHSS risks related to its operations and maintaining openness, transparency and dialogue with its employees, communities, authorities, suppliers, customers and other stakeholders. As part of its commitment to its employees, communities and environment, SABIC has incorporated its EHSS Policy into its Code of Ethics.

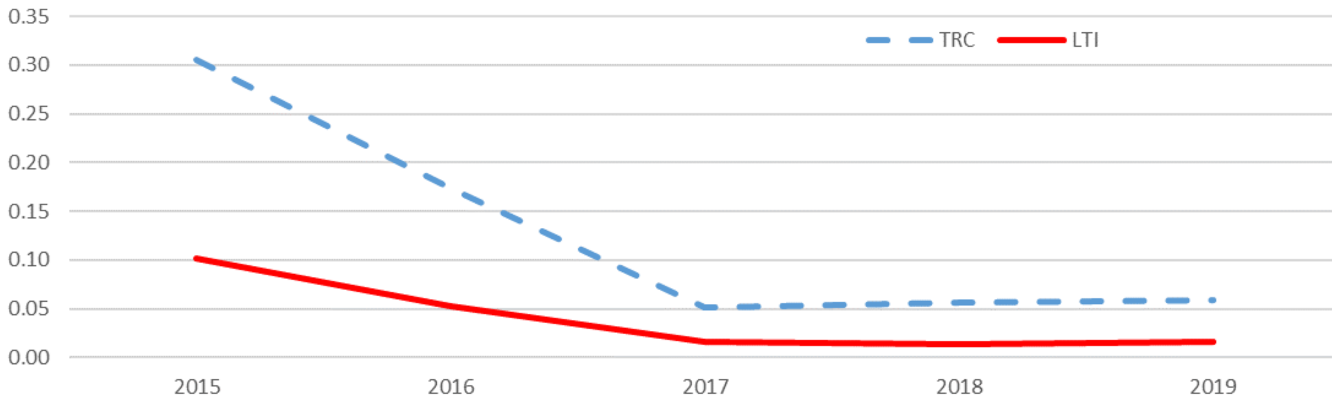
SABIC's EHSS Executive Council, which consists of its Vice-Chairman and CEO, executive vice presidents, EHSS functional leaders and legal team members, monitors performance, establishes milestones and reviews strategic programmes and company initiatives. A separate EHSS Council, which includes manufacturing-affiliated presidents and site and functional EHSS leaders, meets each quarter to coordinate strategic programmes, strengthen SABIC's EHSS culture and identify areas in need of special focus. Complimenting this work, SABIC's Product Stewardship Council advances knowledge and best practices, and reduces the EHHS risks of its product portfolio.

*Health and Safety Key Performance Indicators*

Saudi Aramco benchmarks its safety performance against industry standards and performance targets that are set in line with industry practices to improve safety performance. Safety performance is measured and tracked through key performance indicators established by the HSSE Committee and reported to the Risk and HSE Committee. Formal and informal safety reviews are conducted by qualified reviewers to assure compliance and assure operational discipline.

In addition, the Issuer monitors its total reportable case ("**TRC**") rate, which includes fatalities, lost time injuries ("**LTI**"), restricted duty injuries and medical treatment cases. The TRC rate for the Issuer's total workforce of domestic wholly owned and operated assets, including contractors, from 2015 to 2019 decreased from 0.305 per 200,000 work hours to 0.059 per 200,000 work hours. Similarly, LTI during that period decreased from 0.102 per 200,000 work hours to 0.016 per 200,000 work hours.

The following chart shows the TRC rate and LTI rate for the Issuer's total workforce, including contractors, from 2015 to 2019.




Moreover, the Issuer monitors the number of unplanned or uncontrolled releases of any material, including non-toxic and non-flammable materials, from a process that results in certain consequences articulated by the American Petroleum Institute Recommended Practice 754 (Process Safety Performance Indicators for the Refining and Petrochemical Industries) ("**Tier 1 Events**") and fatalities. The number of Tier 1 Events for the Issuer's total workforce of domestic wholly owned and operated assets, including contractors, was seven and four for the years ended 31 December 2018 and 2019, respectively, while the number of fatalities was nine and six for those years.

SABIC also measures and tracks a wide variety of EHSS performance metrics at its facilities to enable continual improvement. As a key overall performance indicator, SABIC uses an EHSS rate, which incorporates a comprehensive range of incident types, including accidental releases to the environment, process–safety events, occupational health and safety injuries, illnesses and security incidents. From 2015 to 2019, SABIC's EHSS rate rose slightly from 0.48 per 200,000 work hours to 0.57 per 200,000 work hours. The following table shows the EHSS rate, total recordable incident rate, occupational illnesses rate, fatalities and process safety total incident rate for SABIC's total workforce from 2015 to 2019.

| | **2015** | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|---|
| EHSS rate (incidents/200,000 work hours) | 0.48 | 0.63 | 0.50 | 0.43 | 0.57 |
| Total recordable incident rate (incidents/200,000 work hours) | 0.13 | 0.14 | 0.12 | 0.14 | 0.14 |
| Occupational illness rate (incidents/200,000 work hours) | 0.000 | 0.002 | 0.014 | 0.003 | 0.008 |
| Process safety total incident rate (incidents/200,000 work hours) | 0.01 | 0.02 | 0.01 | 0.01 | 0.03 |
| Fatalities (number) | 0 | 14 | 1 | 0 | 0 |

*Saudi Aramco Response to the COVID-19 pandemic*

In response to the COVID-19 pandemic, Saudi Aramco has taken certain steps to ensure the safety of its employees, including the provision of medical support services. These medical support services include supplying approximately 30,000 testing kits, 240 ventilators and 1,500 oxygen cylinders, as well as setting up quarantine facilities containing more than 1,000 rooms.

***Environment***

Saudi Aramco's operations are subject to a number of environmental laws, regulations, protocols and policies in each of the jurisdictions in which it operates, governing, among other things, the generation, storage, handling, use, disposal and transportation of hazardous materials, the emission and discharge of hazardous materials, ground water use and contamination, discharges of water, soil contamination, hazardous substances and wastes, industrial hygiene and occupational health. Saudi Aramco seeks to comply with all applicable environmental laws, regulations, protocols and policies. The Issuer has established management systems and other internal processes to identify emerging environmental risks and to prepare and execute a response plan to mitigate potential impacts of those risks. In addition, for its operations within the Kingdom for which there are no applicable national environmental regulations, Saudi Aramco has developed environmental standards aligned with leading industry practices to achieve Saudi Aramco's environmental protection objectives. Furthermore, Saudi Aramco also conducts environmental impact assessments when evaluating new projects, including assessments of project design, construction, operations and decommissioning in compliance with applicable environmental laws, regulations, protocols and policies.

The Board of Directors has an established Risk and HSE Committee to oversee the management of environmental risks and key environmental performance indicators, and Saudi Aramco has established a corporate risk management programme focussed on environmental compliance. Saudi Aramco also has established an environmental management system aligned to ISO 14001:2015 standards to manage environmental compliance and enhance environmental performance. Each subsidiary is responsible for establishing its own environmental compliance framework and monitoring ongoing compliance.

Saudi Aramco's environmental master plan provides a framework for achieving its environmental objectives in the Kingdom. For a description of the domestic environmental regulations to which Saudi Aramco is subject and the multilateral environmental agreements to which the Kingdom is a party that are relevant to Saudi Aramco's operations in the Kingdom, see "*Regulation of the Oil and Gas Industry in the Kingdom*".

Saudi Aramco 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. Saudi Aramco has measures in place to monitor and assess performance, to prevent releases that might occur and to remediate occurrences from facilities that it owns or operates.

Within the Kingdom, Saudi Aramco works to identify and control sources of contamination in soil and groundwater through site characterisation, monitoring and risk assessment. Since 2007, Saudi Aramco has implemented a groundwater remediation programme to systematically and consistently identify and implement clean-up assessments at impacted wholly owned Saudi Aramco 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, Saudi Aramco completed a chemical spill risk assessment for its wholly owned operations in the Kingdom in order to ensure its response readiness. The assessment evaluated risks associated with potential hazardous onshore and offshore chemical spills.

As at 31 December 2017, 2018 and 2019, Saudi Aramco established provisions of SAR 796.0 million, SAR 849.0 million and SAR 937.0 million ($249.9 million), respectively, for environmental liabilities. Saudi Aramco relies on engineering studies, historical and technical experience, generally accepted accounting standards and other factors to identify and evaluate environmental-related reserves. The 2017, 2018 and 2019 provisions primarily relate to liabilities for environmental projects driven by governmental mandates, projects for groundwater remediation and remediation of oil impoundments throughout Saudi Aramco's in-Kingdom wholly owned assets.

*Water Management*

Saudi Aramco monitors the total volume of water used in its in-Kingdom operations, including treated water, desalinated seawater, groundwater and reused wastewater. In 2011, Saudi Aramco established a water conservation policy that uses best practices and technologies to promote the use of sustainable sources of water, optimising water demand, maximising wastewater reuse and minimising water loss. Following the definition of freshwater consumption set forth by the IPIECA (an oil and gas industry association), Saudi Aramco consumed 35.9 million cubic metres, 30.5 million cubic metres and 36.2 million cubic metres of freshwater in 2017, 2018 and 2019, respectively.

Additionally, the Issuer monitors its hydrocarbon discharges by deploying online monitoring systems to provide continuous, reliable and accurate measurements of hydrocarbons in wastewater effluents, helping to proactively manage hydrocarbon discharges to the marine environment in a timely manner. For the years ended 31 December 2018 and 2019, the quantity of hydrocarbon discharge to the marine environment for the in-Kingdom wholly owned and operated assets was 18 barrels and 15 barrels, respectively.

SABIC continuously strives to improve its water efficiency, including by installing and modifying hardware, optimising processes, monitoring consumption and promoting a culture of sustainability. SABIC measures freshwater intensity in cubic metres per tonne of product sales. For the years ended 31 December 2018 and 2019, SABIC's freshwater intensity was 2.62 cubic metres per tonne of product sales and 2.58 cubic metres per tonne of product sales, respectively.

*Operational Incidents*

The Issuer proactively manages its operations in a manner that seeks to avoid hydrocarbon leaks and spills by maintaining asset integrity throughout the asset lifecycle, including by utilising modern technologies to monitor operations in real time and mitigate the risk of leaks. These technologies include high frequency radar, high-tech mooring buoys, intelligent early-warning systems and hydrodynamic modelling capabilities. The quantity of hydrocarbon spills of at least one barrel to the environment for the in-Kingdom wholly owned and operated assets was 139 barrels and 18 barrels, respectively, for the years ended 31 December 2018 and 2019.

SABIC manages accidental releases of hazardous substances into the environment by carefully tracking and categorizing all accidental releases based on severity and works on eliminating emissions of hazardous materials and minimising all others. For the years ended 31 December 2018 and 2019, the total number of hazardous-substance release incidents was 29 and 31, respectively.

*Air Emissions*

The Issuer seeks to continually reduce emissions through capital investment and operational improvement. For the years ended 31 December 2018 and 2019, the total volume of hazardous substances released was 89 tonnes and 224 tonnes, respectively.

*GHG emissions*

Saudi Aramco's Sustainability Steering Committee guides and oversees the management of climate activities, including overseeing the carbon footprint of operations and assets and assessing expectations on future energy, technology and climate change trends. Additionally, the steering committee facilitates collaboration among relevant internal and external parties with respect to climate change matters.

The Kingdom has a small number of large and productive oil reservoirs, low per barrel gas flaring rates and low water production, resulting in less mass lifted per unit of oil produced and less energy used for fluid separation, handling, treatment and reinjection, all of which contribute to low upstream carbon intensity. For 2019, the Issuer calculated its direct (Scope 1) and indirect (Scope 2) GHG emission sources from its wholly owned and operated facilities in the Kingdom. The following table sets forth Scope 1, Scope 2 and total GHG (Scope 1 and Scope 2) emissions from the upstream and downstream operations of the Issuer and its in-Kingdom, wholly owned facilities by type of emissions for the years ended 31 December 2018 and 2019:

| | **2018** | | | **2019** | | |
|---|---|---|---|---|---|---|
| **Type** | **Methane** *(thousand tonnes)* | **Carbon dioxide equivalent (methane)** *(million tonnes)* | **Total carbon dioxide equivalent** *(million tonnes)* | **Methane** *(thousand tonnes)* | **Carbon dioxide equivalent (methane)** *(million tonnes)* | **Total carbon dioxide equivalent** *(million tonnes)* |
| Scope 1............. | 48.48 | 1.21 | 46.56 | 44.66 | 1.12 | 44.25 |
| Scope 2............. | 0.34 | 0.01 | 14.72 | 0.38 | 0.01 | 16.92 |
| **Total** ................ | **48.82** | **1.22** | **61.28** | **45.05** | **1.13** | **61.17** |

The following table sets forth Scope 1, Scope 2 and total GHG (Scope 1 and Scope 2) emissions from SABIC's operations by type of emissions for the years ended 31 December 2018 and 2019:

| Type | Total carbon dioxide equivalent | |
|---|---|---|
| | **2018** | **2019** |
| | *(million tonnes of carbon dioxide equivalent)* | |
| Scope 1 | 39 | 37 |
| Scope 2 | 18 | 18 |
| **Total** | **57** | **55** |

*GHG Intensity*

The Issuer commissioned a limited assurance engagement on the 2018 and 2019 GHG emissions in accordance with International Standards for Assurance Engagements 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. Based on Saudi Aramco's 2019 upstream total deliveries of 12.8 million barrels of oil equivalent per day, the upstream carbon intensity of Saudi Aramco's domestic wholly owned and operated assets was 10.4 kilograms of carbon dioxide equivalent per barrel of oil equivalent for 2019.

In 2018, Saudi Aramco's Environmental Protection Department established a GHG emissions management programme. The primary focus of the programme is to account for GHG emissions from Saudi Aramco's operations and assets, develop relevant key performance indicators, establish GHG metric targets and support reporting requirements based on industry guidelines. Saudi Aramco is pursuing various initiatives to manage the carbon footprint of its operations and assets by implementing flare gas recovery systems, energy efficiency programmes, leak detection and repair programmes and evaluating the potential utilisation of carbon dioxide in various applications, such as enhanced oil recovery. An enhanced leak detection and repair programme for the Issuer's methane emissions in the Kingdom prioritises actions at operating facilities and includes efforts to develop and deploy new, more efficient technologies to detect and reduce facility emissions.

Saudi Aramco 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. Saudi Aramco 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, Saudi Aramco 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. Saudi Aramco 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.

In connection with SABIC's GHG emissions, SABIC's 2019 GHG gas intensity was 1.2 tonnes of carbon dioxide equivalent per tonne of product sales, a 3.8% reduction from 2018 and a 13.6% reduction from SABIC's 2010 baseline.

In order to further reduce its GHG emissions, SABIC, steered by a cross-functional team, is actively transitioning to renewable energy, evaluating opportunities for its generation, sourcing and storage. In the Kingdom, SABIC is collaborating with the Government to achieve national targets outlined in the Paris Agreement, whereas in Europe, SABIC has climate programmes at all sites to support the EU 2030 climate and energy frameworks.

SABIC also tracks carbon dioxide utilisation as an environmental key performance metric. For the years ended 31 December 2018 and 2019, carbon dioxide utilisation was 4.0 million tonnes and 3.4 million tonnes, respectively.

*Flaring*

One of Saudi Aramco's long-standing initiatives is to efficiently and sustainably use associated gas. Since the 1970s, Saudi Aramco has acted to mitigate the negative environmental impacts of systematic flaring of associated gas by utilising gas for power generation and petrochemicals production, which also has positive economic benefits to Saudi Aramco. Additionally, the Issuer has grown the MGS which supplies gas for use in the electric power facilities located in the Kingdom and in the Kingdom's rapidly growing petrochemical sector. Development of the MGS reduced the Issuer's environmental impact and GHG emissions arising from flaring, in addition to supporting national economic growth. In order to further improve its environmental performance, Saudi Aramco established a flaring minimisation plan in 2006. For the years ended 31 December 2018 and 2019, the flaring intensity of the Issuer's domestic wholly owned and operated assets was 5.77 scf per barrel of oil produced and 5.54 scf per barrel of oil produced, respectively. Additionally, the volume of flared gas for the in-Kingdom wholly owned and operated assets for the years ended 31 December 2018 and 2019 was 27.8 bscf and 26.6 bscf, respectively.

With an aim to further improve its environmental performance, in August 2019, Saudi Aramco formally endorsed and signed the World Bank's initiative of "Zero Routine Flaring by 2030" with the objective of sharing best practices and knowledge in flaring minimisation, report progress and demonstrate its efforts in reaching zero routine flaring. In the first nine months of 2020, Saudi Aramco had less than 1% flaring of its raw gas production.

SABIC has also reduced emissions from flaring in recent years. Emissions from flaring, compared to baseline 2010 levels, fell by 43% and 48% for the years ended 31 December 2018 and 2019, respectively. By 2025, SABIC aims to reach a 65% reduction in emissions from flaring as compared to baseline 2010 levels.

*Methane Emissions*

Throughout 2018 and 2019, the Issuer implemented a leak detection and repair programme, covering all operating wholly owned facilities in Saudi Arabia. The programme enables a reduction in methane emissions by identifying and mitigating fugitive leaks.

Upstream methane intensity was 0.06% for in-Kingdom wholly owned and operated assets for each of the years ended 31 December 2018 and 2019.

*Renewable Energy and Environmental Stewardship Projects*

Saudi Aramco is investing in green energy and sustainability initiatives throughout its operations both in the Kingdom and abroad with international partners. Saudi Aramco is deploying renewable energy systems in office buildings and industrial facilities such as production wells and bulk plants. For example, in January 2017, Saudi Aramco installed the Kingdom's first wind turbine at Turaif Bulk Plant. Additionally, Saudi Aramco has installed a carpark solar panel system covering a total area of 100,000 square metres with a power generation capacity of 10.5 megawatts.

In the Kingdom, Saudi Aramco's operational areas include vast tracts of land and sea areas that contain important and sensitive habitats and species. This natural biodiversity is considered an important asset to the Kingdom and the Issuer exerts considerable effort to document, protect and enhance the Kingdom's biodiversity. For example, Saudi Aramco has established a wildlife sanctuary near its Shaybah facility to promote and preserve biodiversity.

Saudi Aramco has also invested in sustainability projects, such as artificial reefs deployed in the Arabian Gulf, a fish hatchery in Abu Ali, the planting of more than two million mangrove trees and reserving areas with significant biodiversity. In addition, Saudi Aramco recently conducted its first industrial estimate of carbon sequestration (Blue Carbon) in the marine and coastal environment. Furthermore, in 2018, Saudi Aramco commenced a programme to plant one million native trees in strategic locations throughout the Kingdom, helping to combat desertification, enhance native biodiversity and create shaded areas.

The Issuer has developed an environmental stewardship programme where staff and communities are encouraged to participate in protecting the environment. The stewardship programme also extends outside the Kingdom where Saudi Aramco operates with its international joint venture partners, and through collaboration with leading international conservation entities whom Saudi Aramco is assisting in the protection of biodiversity globally. The Issuer is working closely with the Smithsonian Institute tracking the movement of endangered animals, and with UNESCO in Asia supporting biosphere reserves and encouraging the clean-up of plastic waste along coastlines and in estuaries.

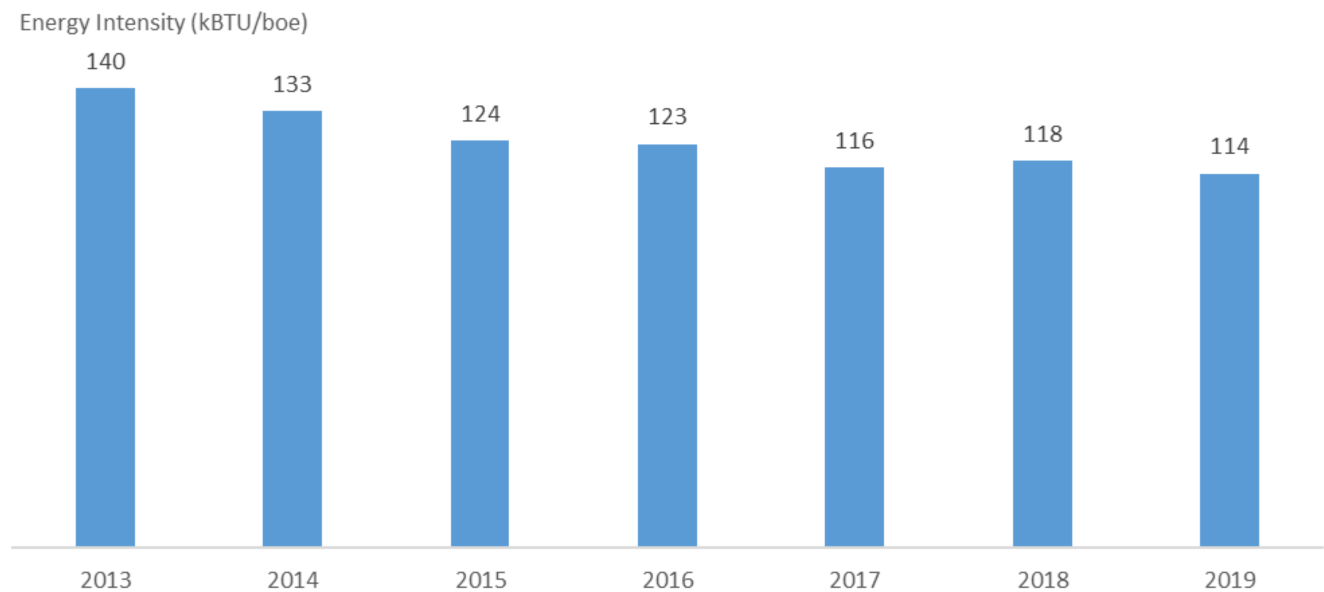
SABIC similarly engages in various renewable energy and sustainability projects. In terms of renewable energy strategy, SABIC aspires to achieve 100% renewable energy, with interim goals of installing four gigawatts of wind and solar energy capacity by 2025 and 12 gigawatts by 2030. In addition to various other renewable energy projects, in 2019, SABIC installed solar panels at two sites, leading to a 200 tonne reduction in GHG emissions.

*Energy Efficiency*

The Issuer has been adopting and implementing energy efficient technologies and practices to reduce its energy consumption, reduce its GHG emissions, improve its plant and facility operations, and promote an environmentally conscious corporate culture. As part of its energy efficiency efforts, Saudi Aramco is utilising cogeneration systems to help reduce its dependency on the national electricity grid, with the goal of ultimately reaching electrical power self-sufficiency for its operating plants.

As part of its energy efficiency efforts, Saudi Aramco monitors the energy intensity of its oil and gas operations and other business activities. The energy intensity of the Issuer's in-Kingdom wholly owned and operated assets was 116.3 kBTU per boe, 118.4 kBTU per boe and 114.1 kBTU per boe in 2017, 2018 and 2019, respectively.

The following chart illustrates the energy intensity of the Issuer's in-Kingdom operated facilities from 2013 to 2019.




SABIC's energy intensity was 17.1 gigajoules of energy used per tonne of product sales and 16.5 gigajoules of energy used per tonne of product sales for each of the years ended 31 December 2018 and 2019, respectively. This reduction of 3.5% was achieved through a number of efficiency projects at different facilities, which offset increases due to new Government regulations requiring waste to be incinerated at certain in-Kingdom facilities.

*Local and Global Citizenship*

Saudi Aramco 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 to further advance these projects.

Within the Kingdom, projects are undertaken both on Saudi Aramco's own initiative and as directed by the Government. See "—*Corporate Citizenship*". Internationally, Saudi Aramco's citizenship initiatives range from natural disaster relief and educational initiatives in China, habitat preservation programmes in Japan and Southeast Asia and STEM and petrochemical industry education programmes in the U.S. and Europe. Saudi Aramco's international citizenship efforts are governed by Saudi Aramco's Citizenship Executive Committee.

**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 Saudi Aramco, title to such hydrocarbons automatically passes to Saudi Aramco 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 Saudi Aramco from time to time.

Pursuant to the Concession, effective 24 December 2017, Saudi Aramco's exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, was limited to 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 Saudi Aramco 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 Saudi Aramco and the Government agreeing on the terms of the extension. See "*Material Agreements—The Concession*".

The Kingdom is a member state of OPEC. OPEC is an intergovernmental organisation whose member countries meet periodically and engage in discussions in respect of crude oil. Any independent, sovereign decision that the Kingdom makes pursuant to such discussions is communicated by the Government to Saudi Aramco and can have a direct impact on Saudi Aramco. For example, a series of meetings recently took place on 9 and 12 April 2020 among OPEC and non-OPEC oil producing countries participating in the Declaration of Cooperation, whereby participants agreed to reduce their overall oil production in stages between 1 May 2020 and 30 April 2022. The extension of the agreement will be reviewed in December 2021. For additional information concerning Saudi Aramco'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 Saudi Aramco's predecessor certain exclusive rights, including the right to explore, drill, recover and treat crude oil and other hydrogen and carbon compounds in liquid or gaseous state within certain areas of the Kingdom (which were revised and grew over time), with limited territorial exceptions. Pursuant to Royal Decree No. M/8 dated 4/4/1409 in the Hijri calendar (corresponding to 13 November 1988) approving Saudi Aramco's original articles, Saudi Aramco 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 (the "**Minister**"), and Saudi Aramco entered into the revised Concession Agreement (the "**Concession**"), which was adopted under Royal Decree No. (M/12) dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019) and replaced and superseded in its entirety the Original Concession on such date (the "**Concession Effective Date**"). Further, on 20/1/1441 in the Hijri calendar (corresponding to 19 September 2019), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy, and Saudi Aramco entered into an amendment to the Concession, with effect from 1 January 2020) (the "**Concession Amendment**").

In return for certain royalty payments determined in accordance with the Concession to be made by Saudi Aramco to the Government, the Government has granted Saudi Aramco the exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in the Excluded Areas, for an initial period of 40 years from the Concession Effective Date, unless terminated earlier in accordance with its terms. The Government will issue a decision to extend the Concession for a period of 20 years on the 30th anniversary of the Concession Effective Date, unless Saudi Aramco has not met certain specific conditions set forth in the Concession. The Concession can be further extended by an additional 40 years following the 60th anniversary of the Concession Effective Date by mutual agreement between the Government and Saudi Aramco. The Excluded Areas consist of: (a) the boundaries of the Holy Mosques in Makkah Al-Mukarramah and Madinah Al-Munawwarah, (b) the partitioned territory and its adjoining offshore areas in accordance with the agreements between the Kingdom and the State of Kuwait and (c) the common zone in the Red Sea in accordance with the agreement between the Kingdom and the Republic of Sudan.

The Concession requires that all Saudi Aramco 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 Saudi Aramco'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**

Saudi Aramco 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. Saudi Aramco 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, Saudi Aramco to undertake projects or provide assistance for initiatives outside Saudi Aramco's core businesses in furtherance of the Government's objectives. Prior to 2017, the Government reimbursed Saudi Aramco for its costs incurred relating to certain of these Government-directed activities by allowing Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco 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, Saudi Aramco commits resources across the Kingdom to educating and inspiring youth culturally and through development of STEM knowledge and skills.

Other corporate citizenship initiatives have included the following:

- In 2007, the Government directed Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco.

- As a company operating in an industry that depends on STEM fields, Saudi Aramco has committed resources in the Kingdom, including through KAUST, and abroad to educating students in developing STEM skills. For example, Saudi Aramco 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 mathematics. Saudi Aramco 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.

- Saudi Aramco has taken a leading role in promoting and supporting the right of women to drive in the Kingdom following changes to applicable laws in 2018. Saudi Aramco opened a driving centre with the objective of providing training to its female employees and employees' female family members, as well as encouraging a safer and friendlier driving environment on the Kingdom's roadways.

- Saudi Aramco 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, Saudi Aramco constructed the Ajyal Center for Comprehensive Education & Life Skills. The centre serves children with developmental disabilities, including autism spectrum disorder, behaviour disorders and intellectual disabilities.

- In addition to environmental initiatives directly associated with operating its facilities, Saudi Aramco has established a wildlife sanctuary in the Rub' al-Khali near its Shaybah facility to promote and preserve biodiversity and has planted hundreds of thousands of mangroves along the shores of the Arabian Gulf and established artificial reefs to protect and preserve ecosystems.

- Saudi Aramco partners with various institutions to support research of biodiversity, environmental challenges and climate change.

- Saudi Aramco has established a partnership with Technical & Vocational Training Corp. and other stakeholders to build training academies for young Saudis that provides training in various industry sectors through a sponsorship scheme followed by employment. As at 30 September 2020, Saudi Aramco has established 16 training centres. These training centres contribute to broadening the pool of professional talent in the Kingdom and furthers Saudi Aramco's In-Kingdom Total Value Add Development Programme, which aims to increase the use of in-Kingdom suppliers of goods and services.

- With the goal of igniting entrepreneurship and enhancing the Kingdom's entrepreneurial and innovation ecosystem, Saudi Aramco 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, Saudi Aramco 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.

Saudi Aramco expects to continue to engage in a range of corporate citizenship projects and initiatives in the future. These include projects and initiatives which Saudi Aramco believes contribute to society in the Kingdom and aid in the development of a skilled workforce.

For additional information about Saudi Aramco's corporate citizenship activities, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Components of Results of Operations—Selling, Administrative and General*" and "*Related Party Transactions—Corporate Citizenship*".

**Business Development Projects**

Saudi Aramco 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, Saudi Aramco established SADCO as a wholly owned subsidiary to build a portfolio of companies and investments that reduce Saudi Aramco's procurement costs and supply chain risks. These new businesses are intended to serve as competitive suppliers for Saudi Aramco as well as third parties. SADCO has formed the Jasara Program Management Company, a joint venture with Jacobs Engineering Inc. and the PIF, to provide professional programme and construction management services for government, semi-government and Saudi Aramco 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*".

Moreover, in 2018, Saudi Aramco began constructing the infrastructure for SPARK, an industrial park aimed to attract international third-party manufacturers and suppliers of goods to the energy sector to locate facilities in the Kingdom. Saudi Aramco believes that SPARK will shorten the supply chain for Saudi Aramco 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 Saudi Aramco. Saudi Aramco receives a reimbursement of its expenses related to SPARK through a reduction in taxes payable. See "*Related Party Transactions—Other Transactions*".

In addition, in support of Saudi Aramco's initiative to develop local supply chains to enhance its long-term commercial interests and reduce procurement costs, on 1 December 2015, Saudi Aramco launched its In-Kingdom Total Value Add Development Programme to increase the use of in-Kingdom suppliers of goods and services. Saudi Aramco believes that the scale of its procurement programme can support building a diversified energy sector in the Kingdom. In addition, Saudi Aramco believes this programme has a positive impact on the Kingdom's economy and supports its efforts to improve the efficiency and effectiveness of its supply chain. In 2019, Saudi Aramco's In-Kingdom Total Value Add score was 56%.

## Employee Development and Other Programmes

Saudi Aramco's employees and workplace culture are important to its success. Saudi Aramco invests in its personnel and has implemented a number of training and skills development programmes. Saudi Aramco believes these programmes allow it to shape its workforce for the future. For example, Saudi Aramco integrates hands-on technical training and online classes, rotational assignments between business lines within Saudi Aramco, internship and mentorship opportunities, sponsored university degree programmes and leadership courses to develop its own employees and talent. In addition, to promote professional development, Saudi Aramco has established and maintained an e-learning solution that contains a substantive set of courses that include tailored administrative, technical and business courses. This tool is accessible to all employees at no cost to enable continuous development. Saudi Aramco also has an apprentice programme that supports high-achieving high school and vocational college students and teaches them skills to enable them to join Saudi Aramco's workforce. Moreover, in order to promote the adoption of Saudi Aramco's ethics and compliance principles into its corporate culture, Saudi Aramco provides regular training to employees across business lines, as well as suppliers and contractors, in connection with its Anti-Bribery and Anti-Corruption, Conflict of Interest, and Business Ethics policies.

As at 31 December 2019, women comprised 4.9% of Saudi Aramco's workforce. To further increase the percentage of women employed by Saudi Aramco and to broaden the pool of qualified female employees in the energy sector generally, Saudi Aramco conducts STEM programming in elementary schools to encourage future careers in these fields. Saudi Aramco also sponsors young Saudi women pursuing degrees in STEM subjects through various training institutes, academies and a university scholarship programme.

Saudi Aramco is also constructing a fully serviced community including houses, schools and other social facilities in South Dhahran that will be available for eligible employees and their families. This community includes affordable housing for eligible employees to purchase as part of Saudi Aramco's home ownership programme. For additional information on Saudi Aramco's employees, see "*—Employees*".

## Insurance

Saudi Aramco maintains insurance policies covering different types of risks to which it may be exposed. These insurance policies have been issued primarily by Saudi Aramco's wholly owned captive insurance company, Stellar, formed and licenced under the laws of Bermuda. All of Saudi Aramco's insurance providers hold a rating of at least A- from AM Best or equivalent rating agencies.

Saudi Aramco 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 Saudi Aramco, see "*Risk Factors—Risks related to Saudi Aramco, its Operations and Industry—Saudi Aramco could be subject to losses from risks related to insufficient insurance*".

**Employees**

As at 30 September 2020, the Issuer and its wholly owned subsidiaries employed 78,626 people. Due to the impact of the COVID-19 pandemic, Saudi Aramco has made minor reductions to its workforce.

**Litigation and Trade Actions**

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 Saudi Aramco, claims for title to land and environmental claims. Additionally, Saudi Aramco in the past has been subject to antitrust claims.

Furthermore, exports of crude oil, refined products and petrochemicals by Saudi Aramco or its affiliates to foreign countries may be affected by litigation, regulatory actions, investigations, 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, and new or increased tariffs, quotas or embargos. 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. Foreign countries may take such measures for political or other reasons, including reasons unrelated to Saudi Aramco actions or operations.

The outcome of litigation and other legal matters, including government investigations or other trade actions, is inherently uncertain. Saudi Aramco believes it has valid defences to the legal matters currently pending against it as a party, including the pending case described under "—*Land Claims*" below. Certain trade actions that do not involve Saudi Aramco as a party may instead involve its products or industry, other products or industries impacting its operations, or the countries in which it operates. Trade actions may be taken without prior notice, or with retroactive effect. Actual outcomes of these legal, regulatory and other proceedings may materially differ from current estimates. To date, none of these types of litigation or trade matters has had a material impact on Saudi Aramco's operations or financial position. Saudi Aramco believes that it is not presently a party to any legal, regulatory or other proceedings that, if determined adversely to it, could reasonably be expected, individually or taken together, to have a material adverse effect on Saudi Aramco's business, financial position or results of operations.

***Contract Claims***

From time to time, Saudi Aramco 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 $1.0 billion in potential exposure.

***Land Claims***

From time to time, Saudi Aramco has been subject to, and remains subject to, claims for title to land. For example, the *Al-Qarqani* case is pending before the Texas Court. In *Al-Qarqani*, the petitioners seek to enforce the Award granted by an arbitral tribunal under the auspices of the IAC in Egypt. The petitioners are currently seeking to enforce the alleged Award in the United States against the Issuer (in Houston) and Chevron (in California). The California Court held there was not an agreement to arbitrate. The holding of the California Court is on appeal to the Ninth Circuit Court of Appeals. The IAC arbitrators have been prosecuted and convicted in Egypt of issuing a fraudulent Award. The Issuer has moved to dismiss the petitioners' enforcement action under the Foreign Sovereign Immunities Act and New York Convention given the absence of any agreement to arbitrate with the petitioners and the enforcement of the alleged Award or, in the alternative, transfer *Al-Qarqani* to the U.S. District Court for the District of Columbia, and is currently awaiting a decision from the Texas Court. The Texas Court dismissed the petitioners previous attempt to enforce the Award against Aramco Services Company due to the lack of an agreement to arbitrate. Even if the Texas Court grants such dismissal, the petitioners may appeal the Texas Court's decision to the Fifth Circuit Court of Appeals.

While the Issuer believes its legal arguments are strong and that it should ultimately be successful in defending against this claim, the outcome of litigation is inherently uncertain. In the unlikely event the Issuer is unsuccessful in defending against this claim, the petitioners may attempt to force it to pay the Award granted by the Egyptian arbitral tribunal, which would have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

***Climate Change Claims***

Claims relating to climate change matters have been filed against companies in the oil and gas industry, by private parties, shareholders of such companies, public interest organisations, state attorneys general, cities and other localities, especially in the United States, including claims that the extraction and development of fossil fuels has increased climate change. Some of these claims demand that the defendants pay financial amounts as compensation for alleged past and future damages resulting from climate change. On 2 July 2018, Motiva, Saudi Aramco's U.S. refinery, was named as a defendant in a climate-change case brought by Rhode Island. The defendants initially attempted to remove the case to federal court, but the case was remanded back to Rhode Island state court. The federal district court's remand order was affirmed by the Court of Appeals for the First Circuit on 29 October 2020. A very similar decision was reached earlier by the Fourth Circuit in Mayor and City of Baltimore, another climate change case against oil and gas companies. On 2 October 2020, the U.S. Supreme Court granted certiorari to review the decision of the Fourth Circuit in City of Baltimore. Due to the similarity of the cases, whether the First Circuit's decision in the Rhode Island case ultimately controls could depend to a large extent on what the Supreme Court decides in the City of Baltimore case. The Supreme Court is expected to hear oral argument in that case in early 2021. While Shell agreed to defend and indemnify Motiva, in the event Motiva is not dismissed, Shell's continued duty to defend and indemnify Motiva may be reevaluated. Claims such as these could grow in number and Saudi Aramco and its affiliated companies could be the subject of similar claims in the United States or elsewhere in the future.

***Antitrust Claims***

Saudi Aramco 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 Saudi Aramco. 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 Saudi Aramco 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 Saudi Aramco's business, financial position and results of operations. In addition, Saudi Aramco is subject to the risk of antitrust claims, lawsuits, regulatory investigations and other antitrust related legal matters arising in the ordinary course of business, potentially comprising the actions of its affiliates, including SABIC and its affiliates.

***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 Saudi Aramco. Any claims against Saudi Aramco related to JASTA, even if without merit, could adversely impact investor perceptions of Saudi Aramco.

### *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 Saudi Aramco were to be subject to such liabilities, this could have a material adverse effect on Saudi Aramco's business, financial position and results of operations.

## MATERIAL AGREEMENTS

### The Concession

#### *Background*

On 4/2/1352 in the Hijri calendar (corresponding to 29 May 1933), the Arabian American Oil Company Concession Agreement was ratified, pursuant to which the Government granted Saudi Aramco's predecessors certain exclusive rights, including the right to explore, drill, recover and treat crude oil and other Hydrocarbons located within certain areas of the Kingdom (which were revised and grew over time), with limited territorial exceptions. Pursuant to Royal Decree No. M/8 dated 4/4/1409 in the Hijri calendar (corresponding to 13 November 1988) approving Saudi Aramco's original articles in 1988, Saudi Aramco 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 of MEIM (predecessor to the Minister of Energy), and Saudi Aramco entered into the Concession, which replaced and superseded in its entirety the Original Concession on the Concession Effective Date. Further, on 20/1/1441 in the Hijri calendar (corresponding to 19 September 2019), and in accordance with the Hydrocarbons Law, the Government, represented by the Minister of Energy, and Saudi Aramco entered into the Concession Amendment, with effect from 1 January 2020).

#### *Grant of Rights*

The Government grants Saudi Aramco the following rights to be exercised at Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco's operations within the Reserved Areas;
- certain rights to acquire and use land, water and other natural products in connection with Saudi Aramco's operations;
- the right to purchase, lease, import or otherwise obtain all materials, equipment and any other supplies required for Saudi Aramco'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 Saudi Aramco's operations.

Under the Concession, Saudi Aramco 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 Saudi Aramco, title to such Hydrocarbons shall automatically pass to Saudi

Aramco at the ownership transfer point. Saudi Aramco 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 Saudi Aramco 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. Saudi Aramco 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 Saudi Aramco has fulfilled the following conditions: (a) Saudi Aramco has exerted reasonable efforts to maximise reserves and their recovery in the Concession Area, taking into consideration production decisions and Hydrocarbons market conditions; (b) Saudi Aramco 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) Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco 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, Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco's Operations***

Pursuant to the Concession, all Saudi Aramco contracts with any Government agency or any arrangement for the furnishing of Hydrocarbons, services or otherwise are required to be on a commercial basis.

Saudi Aramco 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, Saudi Aramco 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 Saudi Aramco'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 Saudi Aramco show the possibility of Hydrocarbons being under the surface of any of these Government Designated Areas, the Government may allow Saudi Aramco to carry out its operations as agreed with Saudi Aramco.

***Discoveries and Reserved Areas***

Saudi Aramco will inform the Government in writing of any new discovery of Hydrocarbons in the Concession Area. If Saudi Aramco elects to reserve any part of the Concession Area for its operations, Saudi Aramco will provide a written request to the Government specifying (a) the location of such area and (b) Saudi Aramco'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 Saudi Aramco desires to reserve fall within a Government Designated Area, the Government will cooperate with Saudi Aramco to allow Saudi Aramco 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.

Saudi Aramco will compensate any person (other than Saudi Aramco) 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 Saudi Aramco.

Saudi Aramco 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 Saudi Aramco'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 Saudi Aramco's operations, the Government will intervene to protect the rights of Saudi Aramco under the Concession.

The Government may by written notice instruct Saudi Aramco to assess a Gas Field Development Project, following which Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco elects not to undertake any Gas Field Development Project as identified by the Government, or if the Government and Saudi Aramco 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 Saudi Aramco to assess the Gas Field Development Project, Saudi Aramco will relinquish such field, if independent, and areas reasonably related thereto located within the Gas Field Development Area, provided that Saudi Aramco need not relinquish any portion of the relevant Gas Field Development Area if: 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 Saudi Aramco's operations; or (c) the Gas Field Development Project would otherwise hinder, affect or interfere with Saudi Aramco's operations or the development of oil and condensate fields or reservoirs.

Saudi Aramco will relinquish any part of the Concession Area that (a) studies conducted by Saudi Aramco establish does not contain Hydrocarbons or (b) Saudi Aramco determines not to be feasible for exploration operations during the term of the Concession.

### *Royalty and Taxes*

Royalties payable to the Government with respect to Saudi Aramco's operations are calculated as follows:

- With respect to Saudi Aramco's production of crude oil and condensates, including those used by Saudi Aramco 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 Saudi Aramco's official selling prices. An effective royalty rate will be applied to production value and will be based each month on the average daily price quotes for Brent crude on the Intercontinental Exchange (or any successor exchange) for each day during such period. The effective royalty rate will be determined based on a baseline rate of 20% applied to the value of production at prices up to $70.0 per barrel, a marginal rate of 40% applied to the value of production at prices above $70.0 per barrel up to $100.0 per barrel and a marginal rate of 50% applied to the value of production at prices above $100.0 per barrel.

- With respect to Saudi Aramco's production of natural gas, ethane and NGLs, excluding those volumes used by Saudi Aramco for upstream operations and related operations (including transportation, pipelines and storage and export facilities, fractionation plants, gas and NGLs plants), royalties are calculated based on a flat royalty rate of 12.5% applied to a factor established by the Ministry of Energy. As at the date of this 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 of Energy may amend the price on which such values are based, taking into account the price that achieves the targeted internal rate of return set by the Minister of Energy in coordination with Saudi Aramco.

Commencing 1 January 2020, the Concession Amendment amended the royalties payable to the Government with respect to Saudi Aramco's production of crude oil and condensates, including those used by Saudi Aramco in its operations, so that the effective royalty rate is determined based on a baseline rate of 15% applied to the value of production at prices up to $70.0 per barrel, a marginal rate of 45% applied to the value of production at prices above $70.0 per barrel up to $100.0 per barrel and a marginal rate of 80% applied to the value of production at prices above $100.0 per barrel.

In order to increase gas production to meet the needs of the Kingdom, the Government may choose not to collect royalties on natural gas, NGLs (including ethane) and condensates for a period specified by the Government with respect to any field as required by the economics of such field's development. Pursuant to the Ministry of Energy's authority under the Concession, on 25 February 2018, the Ministry of Energy decided not to collect royalties from the Issuer on condensate production for a grace period of five years beginning on 1 January 2018. On 17 September 2019, the Ministry of Energy issued Ministerial Resolution No. 1/422/1441, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), which extends the period for which Saudi Aramco will not be obligated to pay royalties on condensate production after the current five-year period for an additional 10-year period, which may be further extended for subsequent 10-year periods, unless the Government determines the economics impacting gas field development do not warrant such an extension.

The Government has the option to take all or part of the royalty in kind from the produced Hydrocarbons. Saudi Aramco 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 Saudi Aramco by the Government and the amounts due and payable by Saudi Aramco to the Government will be pursuant to applicable law.

### *Preservation of Archaeological Sites*

Saudi Aramco 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*

Saudi Aramco will maintain and retain at any of its offices within the Kingdom, with respect to Saudi Aramco's operations in the Kingdom, all operational, financial, tax and other books and records for each period as required by applicable law. Saudi Aramco'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 Saudi Aramco, including the right to examine the systems for calibrating, measuring and weighing of Hydrocarbons and to examine and test the instruments used therefor.

Saudi Aramco accounts will be held in U.S. Dollars, which is the controlling currency of the accounts for purposes of the Concession.

### *Human Resources*

Saudi Aramco 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 Saudi Aramco'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. Saudi Aramco 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. Saudi Aramco is required to implement programmes to train employed Saudi Arabian nationals in aspects of the Hydrocarbons industry and other associated specialities in order to fulfil Saudi Aramco's goals.

### *Access; Non-Interference*

The Government has the right to inspect Saudi Aramco's operations related to exploration, prospecting, exploitation, manufacturing, refining, transportation and marketing. In coordination with Saudi Aramco, and taking into account Saudi Aramco'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 Saudi Aramco's operations within the Reserved Areas for inspection purposes and in a manner that does not hinder or interfere with Saudi Aramco's operations.

### *Insurance*

Saudi Aramco will provide such insurance coverage for its assets as it deems appropriate to meet the requirements of international industry standards and applicable law. Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco's operations. The Government will assist Saudi Aramco in securing, protecting and enforcing such rights to facilitate the orderly conduct of Saudi Aramco's operations in accordance with the Concession, including the acquisition by Saudi Aramco of necessary rights to any land in the Concession Area required for Saudi Aramco's exploration operations, provided that Saudi Aramco 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 Saudi Aramco's commencement of the exploration operations.

Saudi Aramco's operations in connection with the Concession will be exempt from the Kingdom's Competition Law.

Saudi Aramco 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 Saudi Aramco: (a) reasonable assistance with respect to Saudi Aramco's performance of its operations; (b) reasonable assistance to acquire any rights upon the request of Saudi Aramco 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 Saudi Aramco, use the fields and facilities in the Concession Area during any such emergency and require Saudi Aramco to increase production from its operations in case it is unable to meet the Government's needs from Saudi Aramco's then-current production, provided that the Government compensates Saudi Aramco at fair value for such Hydrocarbons and the use of such property.

***Force Majeure***

If Saudi Aramco'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, Saudi Aramco will be in default under the Concession if Saudi Aramco 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 Saudi Aramco's payment obligations to the Government, within 90 days after a written notice of default is given to Saudi Aramco by the Government or (b) with respect to Saudi Aramco's material non-payment obligations, within a reasonably practicable cure period in light of the nature of such default starting from the date Saudi Aramco receives such written notice of default, provided that the foregoing will not be deemed a default while Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco is duly dissolved.

Upon termination or expiry of the Concession, all properties of Saudi Aramco 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. Saudi Aramco 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 Saudi Aramco 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 Saudi Aramco and in accordance with procedures to be timely agreed to by the parties.

### *Assignments*

Saudi Aramco 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, Saudi Aramco will provide the Government with certain technical reports and any other reports the Government requests in relation to Saudi Aramco's operations. Saudi Aramco 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 Saudi Aramco and, within 90 days after the end of each financial year, annual financial statements audited by an internationally recognised accounting firm acceptable to the Government, in each case, prepared in accordance with IFRS, (b) as soon as practically possible, the total sum of royalties, taxes and other amounts Saudi Aramco paid to the Government during the preceding month and periodical reports prepared by Saudi Aramco 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 Saudi Aramco's operations and financial position.

## Agreements with Key Customers

There is no single customer that constituted 5% or more of Saudi Aramco's total revenue and other income related to sales in the years ended 31 December 2017, 2018 and 2019.

## Agreements with Key Suppliers

Saudi Aramco purchases materials and services from local and international suppliers. There is no single third-party supplier that constituted 5% or more of Saudi Aramco's total purchases in the years ended 31 December 2017, 2018 and 2019.

## 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 Saudi Aramco determine the duties and responsibilities of the Board of Directors. The term of a Director is for a period not to exceed three years, subject to renewal or extension. There is no limit on the number of terms that a Director may serve on the Board of Directors.

Saudi Aramco's Bylaws set forth requirements concerning the composition of its Board of Directors, including that the number of independent directors must satisfy the minimum requirements of applicable laws and regulations in the Kingdom. The current Board of Directors 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 of Directors shall be formed by a Council of Ministers resolution based on the recommendation of the Minister of MEIM (predecessor to the Ministry of Energy) until such time that a Board of Directors 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 of Directors and designating five of the Board of Directors members as independent directors: Mr. Moody-Stuart, Mr. Liveris, Mr. Gould, Ms. Elsenhans and Mr. Cella.

On 19 March 2020, Mr. Gould resigned from his position as a member of the Board of Directors and chair of the Audit Committee. On 31 March 2020, Mr. Mark A. Weinberger was appointed to the Board of Directors as an independent director pursuant to Council of Ministers issued Resolution No. 492, dated 7/8/1441 in the Hijri calendar (corresponding to 31 March 2020), to serve Mr. Gould's remaining term with the Board of Directors.

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[(1)] |
|---|---|---|---|
| H.E. Yasir O. Al-Rumayyan | Chairman | No | 20 June 2016[(2)] |
| H.E. Ibrahim A. Al-Assaf | Deputy Chairman | No | 2 January 1999[(3)] |
| H.E. Mohammed A. Al Jadaan | Director | No | 24 April 2018 |
| H.E. Mohammad M. Al-Tuwaijri | Director | No | 24 April 2018 |
| H.E. Nabeel M. Al-Amudi | Director | No | 3 September 2019 |
| Sir Mark Moody-Stuart | Director | Yes | 27 September 2007 |
| Mr. Andrew N. Liveris | Director | Yes | 1 July 2018 |
| Mr. Mark A. Weinberger | Director | Yes | 31 March 2020 |
| Ms. Lynn Laverty Elsenhans | Director | Yes | 24 April 2018 |
| Mr. Peter L. Cella | Director | Yes | 24 April 2018 |
| Mr. Amin H. Nasser | Director, President and Chief Executive Officer | No | 25 August 2010[(4)] |

(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 of Directors on 24 April 2018 except for Mr. Liveris, H.E. Al-Amudi and Mr. Weinberger who were initially appointed to the Board of Directors on 1 July 2018, 3 September 2019 and 31 March 2020, respectively.

(2) H.E. Al-Rumayyan was appointed Chairman of the Board of Directors on 3 September 2019.

(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 Saudi Aramco since 29 April 2015.

### ***H.E. Yasir O. Al-Rumayyan, Chairman***

H.E. Yasir O. Al-Rumayyan, 49, is the Chairman of the Board of Directors. H.E. Al-Rumayyan has served as a Director of Saudi Aramco since 2016. Currently, H.E. Al-Rumayyan serves as an Advisor to the General Secretariat of the Council of Ministers and as Governor and Director of the Board of the PIF. He also serves as Chairman of the Board of the Saudi Decision Support Center as well as a Director on the Boards of Uber Technologies, Inc. and ARM Limited.

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

- Director of NEOM Company, since 2019;
- Director of AMAALA Company, since 2019;
- Chairman of Saudi Arabian Mining Company (Ma'aden), since 2019;
- Director of the Royal Commission for Makkah City and Holy Sites, since 2018;
- Director of The Red Sea Development Company, since 2018;
- Vice Chairman of Central Arriyadh Development Company, since 2018;
- Director of Community Development Company, since 2018;
- Chairman of Noon Investments Company, since 2017;
- Director of Qiddiya Investment Company, since 2018; and
- Chairman of Sanabil Investments Company, since 2017.

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

- Director on the Board of SoftBank Group Corp. from 2017 to 2020.
- Member of the Board of Governors of the Islamic Development Bank from 2016 to 2020.
- Member of the Board of the Saudi Industrial Development Fund from 2016 to 2020;
- CEO and Director of Saudi Fransi Capital LLC from 2011 to 2015;
- Director of the Saudi Stock Exchange (Tadawul) in 2014;
- Director of Corporate Finance and Issuance, CMA from 2008 to 2010; and
- Head of International Brokerage for Saudi Hollandi Bank from 1994 to 2004.

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.

### ***H.E. Ibrahim A. Al-Assaf, Deputy Chairman***

H.E. Dr. Ibrahim A. Al-Assaf, 71, has served as a Director of Saudi Aramco since 1999. Currently, H.E. Dr. Al-Assaf serves as the Minister of State of the Kingdom and a member of the Council of Ministers as well as a Director on the Board of the PIF.

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

- Minister of Foreign Affairs from 2018 to 2019;

- Minister of State of the Kingdom from 2016 to 2018;
- Minister of Finance of the Kingdom from 1996 to 2016;
- Governor of the International Monetary Fund from 1996 to 2016;
- Governor of the Arab Monetary Fund from 1996 to 2016;
- Governor of the Islamic Development Bank 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, an M.A. 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, 56, has served as a Director of Saudi Aramco since 2018. Currently, H.E. Al-Jadaan serves as the Minister of Finance of the Kingdom and the acting Minister of Economy and Planning of the Kingdom and is a member of the Council of Ministers. He also serves as a member of Council for Economic and Development Affairs of Saudi Arabia.

H.E. Al-Jadaan currently serves in the following capacities:

- Chairman of the General Organization for Social Insurance, since 2020;
- Chairman of the Public Pension Agency, since 2020;
- Chairman of the Privatisation Program Committee, since 2019;
- Chairman of the National Center for Privatization & PPP (NCP), since 2019;
- Chairman of the National Debt Management Centre, since 2019;
- Director of the Saudi Authority for Data and Artificial Intelligence, since 2019;
- Director of King Abdulaziz City for Science and Technology, since 2019;
- Director of the Royal Commission for Riyadh City, since 2019;
- Chairman of the Saudi Customs, since 2018;
- Chairman of the Spending Efficiency Center, since 2018;
- Chairman of the Non-Oil Revenue Center, since 2018;
- Chairman of the State Properties General Authority, since 2018;
- Director of the National Program to Support the Management of Projects in Public Entities, since 2018;
- Chairman of the General Authority of Zakat and Tax, since 2017;
- Committee Chairman of the Financial Sector Development Program Committee, since 2017;
- Committee Chairman of the Fiscal Balance Program Committee, since 2017;
- Director of National Development Fund, since 2017;

- Director of General Authority for Military Industries, since 2017;
- Director of the PIF, since 2016;
- Director of Military Industries Corporation, since 2016;
- Member of the Board of Governors of the Islamic Development Bank, since 2016;
- Member of the Board of Governors of the International Monetary Fund, since 2016;
- Member of the Board of Governors of the World Bank, since 2016;
- Member of the Board of Governors of the Arab Fund for Economic and Social Development, since 2016;
- Member of the Board of Governors of the Arab Monetary Fund, since 2016;
- Member of the Board of Governors of the Arab Bank for Economic Development in Africa, since 2016;
- Member of the Board of Governors of the Asia Infrastructure Investment Bank, since 2016;
- Member of the Board of Governors of the Arab Authority for Agricultural Investment and Development, since 2016;
- Member of the Board of Governors of the Arab Investment and Export Credit Guarantee Corporation, since 2016; and
- Director of the National Center for Performance Measurement "Adaa", since 2016.

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 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, 54, has served as a Director of Saudi Aramco since 2018. Currently, H.E. Al-Tuwaijri serves as an advisor to the Saudi Royal Court in a Minister rank, a member of the Council for Economic and Development Affairs (CEDA), Vice Chairman of the National Development Fund (NDF), a member of the Strategic Management Committee, and a member of the Finance Committee in Royal Court, a member of the Supreme Coordination Committee for Crisis Challenges, a Director of the PIF and a Director of the Royal Commission of Makkah and Holy Sites (RCMC).

H.E. Al-Tuwaijri also currently serves in the following capacities:

- Director of the Public Pension Agency, since 2020;
- Chairman of the Investment and the Audit Committees of the RCMC Board, since 2019;
- Chairman of the Investment Committee of the PIF Board, since 2019;
- Chairman of the Center for the National Transformation Program, since 2017;
- Supervisor of the National Risk Unit at the Royal Court, since 2017; and

- Chairman of the Executive Committee of the NDF, since 2017.

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

- Minister of Economy and Planning of the Kingdom; Member of the Council of Ministers; Chairman of the Standing Committee of CEDA; Chairman of the Board of Directors of the National Project Management, Operation and Maintenance Organization (Mashroat), and the General Authority for Statistics; Secretary General of the National Center for Performance Measurement (Adaa); and Director of Saudi Arabian Airlines from 2017 to 2020;

- Chairman of the National Center for Privatization & PPP from 2019 to 2020;

- Chairman of the National Center for Strategic Development Studies from 2016 to 2020;

- Director of the Saudi Authority for Data and Artificial Intelligence from 2019 to 2020;

- Director of the Royal Authority for the City of Riyadh from 2019 to 2020;

- Director of the National Information Center from 2018 to 2020;

- Vice Chairman and Chief Executive Officer of HSBC Middle East, North Africa and Turkey; Regional Head of Global Banking & Markets, HSBC MENA from 2010 to 2016; and

- Managing Director 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. Nabeel M. Al-Amudi, Director***

H.E. Nabeel Mohamed Al-Amudi, 46, has served as a Director of Saudi Aramco since 2019. H.E. Al-Amudi is a Director of the Dr. Suliman Habib Medical Group and the Olayan Saudi Holding Company. H.E. Al-Amudi is also the President of Olayan Financing Company.

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

- Director of the Red Sea Company from 2017 to 2020;

- Director of the NEOM Company from 2018 to 2020;

- Minister of Transport of the Kingdom and Chairman of the Board of Directors of the General Authority of Civil Aviation, Public Transport Authority, Saudi Ports Authority, Saudi Railways Organization and Saudi Railways Company from 2017 to 2019;

- Member of the Council of Economic and Development Affairs from 2017 to 2019;

- Director of the Saudi Center for the Strategic International Partnerships during 2019;

- President of Saudi Ports Authority from 2015 to 2017;

- Director of Hapag Lloyd AG in 2017;

- Chairman of the United Arab Shipping Company until its merger with Hapag Lloyd AG, from 2015 to 2017;

- Chairman of the Saudi Electronic Info Exchange Company, Tabadul from 2016 to 2017;

- President of Aramco Services Company from 2013 to 2015; and

- President of Saudi Refining Inc. from 2012 to 2013.

Previously, H.E. Al-Amudi was an employee of Saudi Aramco, joining in 1995, during which he held a series of positions progressing through various areas of Saudi Aramco.

H.E. Al-Amudi obtained a J.D. from Harvard Law School in 2001 and a B.S. in Chemical Engineering from Stanford University in 1995. H.E. Al-Amudi is a 2009 graduate of Stanford's Graduate School of Business Executive Program and is a member of the New York State Bar Association. He was elected as a Young Global Leader by the World Economic Forum in 2014.

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

Sir Mark Moody-Stuart, 80, has served as an independent Director of Saudi Aramco since 2007. Currently, Sir Mark serves as Chairman of the Global Compact Foundation and of Zamyn. He also serves as an Advisory Board Member of Envision Energy Ltd.

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;
- Council Member of the International Integrated Reporting Council from 2010 to 2018;
- Board Member of St. George's House Windsor from 2011 to 2017;
- Chairman of Hermes Equity Ownership Services from 2007 to 2016;
- Director of Accenture Plc, a general partner of Accenture SCA, from 2001 to 2015;
- Chairman of Anglo American from 2002 to 2009; and
- Chairman of Royal Dutch Shell from 1998 to 2001.

Sir Mark earned a B.A. in Natural Sciences from Cambridge University in 1963 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, 66, has served as an independent Director of Saudi Aramco since 2018. Currently, Mr. Liveris serves as Chairman of the Board of Lucid Motors, Deputy Chairman of the Board of Worley Parsons and a Director on the Boards of IBM Corporation and Novonix. He also serves as the Chairman of the Blackrock Long Term Private Capital Operating Committee and on the Board of Trustees of KAUST, the Saudi Foundation Hevolution, and of the Australian Foundation Minderoo. He is an advisor to Teneo and the PIF and a member of the Advisory Board of Sumitomo Mitsui Banking Corporation (SMBC), NEOM and Salesforce.com.

Mr. Liveris has served in the following capacities:

- Executive Chairman on the Board of DowDuPont Inc. from 2017 to 2018; and
- 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, graduating with first class honours and awarded the University Medal. He was awarded an honorary doctorate in Engineering from Michigan State University in 2015 and an honorary doctorate in Science from the University of Queensland in 2005.

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

Ms. Lynn Laverty Elsenhans, 64, has served as an independent Director of Saudi Aramco since 2018. Currently, Ms. Elsenhans serves as a Director on the Board of Baker Hughes Company and GlaxoSmithKline PLC.

Ms. Elsenhans has also served in the following capacities:

- Director of Baker Hughes, a GE Company from 2017 to 2019;
- Director of Baker Hughes, Inc. from 2012 to 2017;
- Director of Flowserve Corporation from 2014 to 2017;
- 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 to 2012, becoming CEO in 2010.

Ms. Elsenhans obtained 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, 62, has served as an independent Director of Saudi Aramco since 2018. Currently, Mr. Cella serves as a Director on the Boards of Frontdoor, Inc., a company focused on providing home services, since 2018; Inter Pipeline, a company focused on energy infrastructure, since 2018 and ClockSpring|NRI, a company focused on manufacturing permanent and temporary composite pipe repair solutions, since 2019.

Mr. Cella has also served in the following capacities:

- Director of ServiceMaster Global Holdings from 2017 to 2018;
- President and CEO and as a Director of Chevron Phillips Chemical Company from 2011 to 2017;
- Director of the American Chemistry Council from 2011 to 2017;
- Director of Junior Achievement of Southeast Texas from 2011 to 2017; and
- Senior Vice President for North America Petrochemicals for BASF Corporation from 2006 to 2011.

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. Mark A. Weinberger, Director***

Mr. Mark A. Weinberger, 59, has served as an independent Director of Saudi Aramco since 2020. Currently, Mr. Weinberger serves on the Board of Directors of Metlife, Inc. and Johnson & Johnson. He is a Member on the Board of Trustees for the United States Council for International Business, Greater Washington Partnership, The Concord Coalition, Emory University and Case Western Reserve University. He is a Strategic Advisor to the Board of FCLTGlobal. He is a Senior Advisor to Chief Executives for Corporate Purpose, Stone Canyon Industries Holdings and Teneo. He is an Executive Advisor to G100 and World 50. Mr. Weinberger is on the CEO Advisory Council of JUST Capital Foundation, Inc. Moreover, he sits on the Board of Directors of the National Bureau of Economic Research and is a member of the Economic Strategy Group, a program of the Aspen Institute.

Mr. Weinberger has also served in the following capacities:

- Global Chairman and CEO of Ernst & Young from 2013 to 2019 and a director since 2000, during which time he held a series of roles;
- Director on the Board of U.S. Business Roundtable from 2014 to 2019;
- Director on the Board of Catalyst, Inc. from 2013 to 2019;
- Co-Founder and Principal of Washington Counsel, P.C. (acquired by EY) from 1996 to 2000;
- Partner at Oldaker, Ryan & Leonard from 1995 to 1996.

Mr. Weinberger has also served the U.S. government in the following capacities:

- President's Strategic and Policy Forum under President Trump in 2017;
- President's Infrastructure Task Force under President Obama from 2015 to 2016;
- Assistant Secretary of the U.S. Department of Treasury (Tax Policy) in 2001 and 2002;
- Social Security Administration Advisory Board (appointed by President Clinton) in 2000;
- Chief of Staff to U.S. President Bill Clinton's Bipartisan Commission on Entitlement and Tax Reform in 1994; and
- Chief Tax and Budget Counsel, U.S. Senate to Senator John C. Danforth (R-Missouri) from 1991 to 1994.

Mr. Weinberger obtained a B.A. in Economics from Emory University in 1983. He also earned an M.B.A. and a J.D. from Case Western Reserve University in 1987, and an L.L.M. in Taxation from Georgetown University Law Center in 1991. He has an honorary doctorate from the Kogod School of Business at American University in Washington, DC.

***Mr. Amin H. Nasser, Director, President and Chief Executive Officer***

Mr. Amin H. Nasser, 61, has served as the President and CEO of Saudi Aramco 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 Saudi Aramco, including as Senior Vice President for Upstream from 2010 to 2015 and VP of Petroleum Engineering and Development from 2006 to 2007.

Mr. Nasser obtained 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 Saudi Aramco's affairs and assist the Board of Directors and its individual Directors with oversight of the financial reporting and disclosure process, including oversight of: (i) the integrity, effectiveness and accuracy of Saudi Aramco's consolidated financial statements and reports, and the performance, soundness and effectiveness of Saudi Aramco's internal controls, audit, financial reporting and financial risk management systems; (ii) the qualifications and performance of Saudi Aramco's internal auditor;

(iii) the qualifications, independence and performance of Saudi Aramco's independent external auditor; and (iv) Saudi Aramco's compliance with legal and regulatory requirements.

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

| Name | Role |
|---|---|
| Ms. Lynn Laverty Elsenhans | Chair |
| H.E. Mohammed A. Al-Jadaan | Member |
| H.E. Nabeel M. Al-Amudi | Member |
| Mr. Peter L. Cella | Member |
| Mr. Mark A. Weinberger | 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 Saudi Aramco and to ensure the effectiveness of the Board of Directors and the individual 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 Saudi Aramco, 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 Saudi Aramco. The Nomination Committee also proposes and makes recommendations to the Board of Directors with respect to Saudi Aramco's relevant corporate governance practices and procedures.

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

| Name | Role |
|---|---|
| Mr. Andrew N. Liveris | Chair |
| H.E. Yasir O. Al-Rumayyan | 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 Saudi Aramco'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 Saudi Aramco 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:

| Name | Role |
|---|---|
| Sir Mark Moody-Stuart | Chair |
| H.E. Yasir O. Al-Rumayyan | Member |
| H.E. Mohammed A. Al-Jadaan | Member |
| Mr. Andrew N. Liveris | Member |
| Mr. Mark A. Weinberger | Member |

### *Risk and HSE Committee*

The primary role of the Risk and HSE Committee is to monitor Saudi Aramco'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 Saudi Aramco'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 Saudi Aramco 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:

| Name | Role |
|---|---|
| Mr. Peter L. Cella | Chair |
| H.E. Mohammad M. Al-Tuwaijri | Member |
| H.E. Nabeel M. Al-Amudi | 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:

| Name | Position | Date of Appointment |
|---|---|---|
| Mr. Amin H. Nasser | Director, President and Chief Executive Officer | 9 January 2015(1) |
| 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, Downstream | 13 September 2020 |
| Mr. Nabeel A. Al-Jama' | Senior Vice President, Human Resources and Corporate Services | 1 July 2020 |
| Mr. Abdulaziz M. Al-Gudaimi | Senior Vice President, Corporate Development | 13 September 2020 |

(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, 52, has served as Senior Vice President, General Counsel and Secretary since 2016.

Mr. Al Mansour also has served in the following capacities:

- 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 has completed a number of executive leadership programmes, including the General Management Program at Harvard Business School in 2008.

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

Mr. Khalid Al-Dabbagh, 59, has served as Senior Vice President of Finance, Strategy and Development since 2018. Mr. Al-Dabbagh represents Saudi Aramco 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, 61, has served as Senior Vice President of Technical Services since 2016. In this role, Mr. Al Sa'adi leads Saudi Aramco's projects with respect to engineering services, IT, procurement and supply chain management, project management and digital transformation.

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

- Vice President of Technical Services from 2015 to 2016;
- Vice President of Gas Operations from 2010 to 2015; and
- Vice President of Pipelines, Distribution and Terminals from 2007 to 2010.

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, Downstream***

Mr. Mohammed Y. Al Qahtani, 52, has served as Senior Vice President of Downstream since 2020. 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:

- Senior Vice President of Upstream from 2016 to 2020;
- 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. Nabeel A. Al-Jama', Senior Vice President, Human Resources & Corporate Services***

Mr. Nabeel A. Al-Jama', 56, has served as a Senior Vice President of Human Resources & Corporate Services since 2020. Mr. Al-Jama' also has served in the following capacities:

- Acting Service Line Head for Operations & Business Services in 2020;
- Vice President for Corporate Affairs from 2018 to 2020;
- Vice President for Human Resources from 2017 to 2018;
- Vice President for the Office of the Chairman of the Board from 2016 to 2017;
- Vice President for Pipelines, Distribution & Terminals from 2015 to 2016;
- Executive Director for Industrial Services from 2012 to 2015;
- Executive Director of Community Services from 2009 to 2012; and

- General Manager of Training & Career Development from 2006 to 2009.

Mr. Al-Jama' earned an M.S. in Community & Regional Planning from the King Fahd University of Petroleum and Minerals in 1998 and a B.S. in Community & Regional Planning from the King Fahd University of Petroleum and Minerals in 1995. In addition, Mr. Al-Jama' has completed numerous executive leadership programs, including Leadership at the Peak, Strategic Negotiations and the University Executive Program.

***Mr. Abdulaziz M. Al-Gudaimi, Senior Vice President, Corporate Development***

Mr. Abdulaziz M. Al-Gudaimi, 58, has served as Senior Vice President, Corporate Development since 2020. Mr. Al-Gudaimi also has served in the following capacities:

- Senior Vice President of Downstream from 2017 to 2020;
- 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-Gudaimi 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, Saudi Aramco entered into employment agreements with its employees who constitute its Senior Management when the relevant person was initially hired by Saudi Aramco. Since Saudi Aramco employs thousands of employees, it generally does not update its employment contracts, even if members of Senior Management change roles within Saudi Aramco. 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 Saudi Aramco's annual performance. Each non-executive Saudi Aramco Director is paid a regular director fee for his or her service. For additional information, see Note 32(c) to the 2019 Financial Statements.

## RELATED PARTY TRANSACTIONS

### The Concession

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

### Commercial Transactions

Saudi Aramco 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.

The Government guarantees amounts due to Saudi Aramco from certain of these entities, subject to a limit on the amount of the guarantee for each entity. The aggregate amount guaranteed in 2017, 2018 and 2019 was SAR 22.4 billion, SAR 32.7 billion and SAR 26.7 billion ($7.1 billion), respectively. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Government Guarantee*".

The sales price of crude oil and certain refined products sold to third parties in the Kingdom is at regulated prices, which are typically lower than prices Saudi Aramco could obtain if it exported those products. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons*". Pursuant to an equalisation mechanism, the Government compensates Saudi Aramco for the revenue it directly forgoes as a result of Saudi Aramco's compliance with the mandates related to crude oil and certain refined products. Effective 1 January 2020, the Government expanded the equalisation mechanism to include LPGs and certain other products. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*". For these products, Saudi Aramco is entitled to compensation from the Government in an amount equal to the cost of revenues directly forgone as a result of compliance with the Kingdom's current pricing mandates. For financial reporting purposes, Saudi Aramco 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, 2018 and 2019, and the nine months ended 30 September 2020, Saudi Aramco's other income related to sales was SAR 150.2 billion, SAR 152.6 billion, SAR 131.1 billion ($35.0 billion) and SAR 69.4 billion ($18.5 billion), respectively.

Effective 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 licencee with reasonable post-tax internal rates of return on existing non-associated gas projects on incremental future projects. However, if the Domestic Price is greater than the Blended Price, any licencee must pay the Government monthly an amount equal to such positive excess. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Gas Pricing*".

On 17 September 2019, the Council of Ministers Resolution No. 55, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/423/1441, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), were passed with immediate effect. Under the updated regulations, when licencees sell any Regulated Gas Product at a Domestic Price below the corresponding Blended Price, licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues they directly forgo as a result of licencees' compliance with the Kingdom's current pricing mandates. In the event that the Blended Price is less than the Domestic Price, the difference would be due from licencees to the Government. The compensation due to Saudi Aramco from the Government is accounted for on a monthly basis and is calculated as the positive difference between the Blended Prices and the Domestic Prices (minus any Government fees and taxes). Saudi Aramco must provide the Ministry of Energy with a statement detailing the total amount due to Saudi Aramco in a monthly period no later than 30 days after the relevant monthly period end. Saudi Aramco may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by Saudi

Aramco to the Government, such as royalties. See "*Regulation of the Oil and Gas Industry in the Kingdom—Regulated Domestic Pricing of Certain Hydrocarbons—Gas Pricing*".

***Acquisition of Equity Interest in SABIC***

On 16 June 2020, Saudi Aramco acquired the PIF's 70% equity interest in SABIC for total consideration of $69.1 billion. For a summary of the purchase agreement to acquire the PIF's 70% equity interest in SABIC, see "*Business—Operating Segments—Downstream—Acquisition of 70% Equity Interest in SABIC*".

***Sales to Government-Owned or Controlled Entities***

*Sales to SABIC*

Saudi Aramco has entered into numerous agreements with certain of SABIC's wholly owned subsidiaries and affiliates pursuant to which Saudi Aramco supplies hydrocarbon products to SABIC's operations in the Kingdom. Prices for such supplies are based on arm's-length pricing available to third parties purchasing from Saudi Aramco. SABIC is listed on Tadawul with 30% of its outstanding common stock owned by shareholders other than Saudi Aramco.

The agreements provide that Saudi Aramco 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. Saudi Aramco 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. Saudi Aramco recorded revenue of SAR 24,293 million and SAR 32,254 million, SAR 24,142 million ($6,438 million) and SAR 9,596 million ($2,559 million) under these agreements in 2017, 2018 and 2019 and the nine months ended 30 September 2020 (up to 16 June 2020, the date from which SABIC's financial results have been consolidated into Saudi Aramco's), respectively.

*Sales to Saudi Electricity Company*

Saudi Aramco has entered into several oil and gas supply agreements with Saudi Electricity Company pursuant to which Saudi Aramco supplies crude oil, gas and other products, including condensate, fuel oil and diesel, to certain of Saudi Electricity Company's power plants. Saudi Electricity Company is the Kingdom's national electricity utility company and is listed on Tadawul. As at 30 September 2020, Saudi Aramco 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 Saudi Aramco to receive the prevailing domestic price or the Government regulated domestic price for the respective products. Saudi Aramco provided to Saudi Electricity Company products and recognised revenue of SAR 12,405 million, SAR 7,268 million and SAR 9,233 million ($2,462 million) and SAR 6,983 million ($1,862 million) under these agreements in 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. As part of the fiscal regime changes, Saudi Aramco expects that the future provision or products to Saudi Electricity Company for which Saudi Aramco does not receive payment will be settled pursuant to the Government guarantee. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations*—Fiscal *Regime Changes*".

In addition, for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, Saudi Aramco provided to Saudi Electricity Company excess electricity generated by Saudi Aramco's facilities with a value of SAR 480.0 million, SAR 408.8 million, SAR 613.0 million ($163.4 million) and SAR 336.0 million ($89.7 million), respectively.

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

For the years ended 31 December 2017, 2018 and 2019, Saudi Aramco 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 years ended December 2017, 2018 and 2019 and the nine months ended 30 September 2020, Saudi Aramco provided crude oil, gas and refined products and certain services with a value of SAR 9,168 million, SAR 10,913 million, SAR 12,068 million ($3,218 million) and SAR 5,614 million ($1,497 million), respectively, for which it received compensation. See "*Management's Discussion and Analysis of Financial Position and Results of Operations—Factors Affecting Saudi Aramco's Financial Position and Results of Operations—Fiscal Regime Changes*".

### *Purchases from Government-Owned or Controlled Commercial Entities*

Saudi Aramco purchases chemical products from SABIC in connection with its downstream operations. Prices for such purchases are based on arm's-length pricing available to third parties purchasing from SABIC. Such purchases totalled SAR 2,959 million, SAR 3,098 million, SAR 3,818 million ($1,018 million) and SAR 1,418 million ($378 million) for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively.

Saudi Aramco purchases electricity from the Saudi Electricity Company. Prices for such purchases are based on arm's-length pricing available to third parties purchasing from the Saudi Electricity Company. Such purchases totalled SAR 308 million, SAR 296 million, SAR 799 million ($213 million) and SAR 2,258 million ($602 million) for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively.

## Corporate Citizenship

Saudi Aramco 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. Saudi Aramco 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, Saudi Aramco to undertake projects or provide technical assistance for initiatives outside Saudi Aramco's core businesses in furtherance of the Government's objectives. Beginning on 24 December 2017, the Concession requires that all Saudi Aramco 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 Saudi Aramco's corporate citizenship activities, see "*Management's Discussion and Analysis of Financial Position and Results of Operations—Selling, Administrative and General*" and "*Business—Corporate Citizenship*".

## Other Transactions

Saudi Aramco has an ongoing relationship with the Government through other transactional arrangements, for which Saudi Aramco is reimbursed in several different manners. For projects on which Saudi Aramco provides financing and arranges for completion of the project, it receives a reimbursement of its expenses through a reduction in taxes payable. The reduction in taxes payable is considered payment of income tax obligations in the Financial Statements.

SADCO, a wholly owned subsidiary of the Issuer, has formed the Jasara Program Management Company, a joint venture with Jacobs Engineering Inc. and the PIF, to provide professional programme and construction management services for infrastructure projects undertaken by Saudi Aramco, 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 Saudi Aramco's long-term commercial interests, in the fourth quarter of 2018 Saudi Aramco began constructing the infrastructure for SPARK, an industrial park aimed to attract international third-party manufacturers and suppliers of goods to the energy sector to locate facilities in the

Kingdom. Saudi Aramco believes that SPARK will shorten the supply chain for Saudi Aramco 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 Saudi Aramco. Saudi Aramco receives a reimbursement of its expenses related to SPARK through a reduction in taxes payable.

Saudi Aramco directly owns a 40.1% interest in International Maritime Industries, a joint venture with the National Shipping Company of Saudi Arabia-Bahri, Lamprell Energy Limited and Hyundai Heavy Industries, which will develop and operate the King Salman International Complex for Maritime Industries & Services. The complex will also include a joint venture between Saudi Aramco, Hyundai Heavy Industries and Dussur to manufacture maritime equipment.

Saudi Aramco currently provides a variety of services to the Government for which it has not received compensation. Saudi Aramco 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 Saudi Aramco'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 Saudi Aramco's Directors and Senior Executives, see "*Management—Compensation of Directors and Senior Executives*".

**Approval of Related Party Transactions**

Saudi Aramco 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 Saudi Aramco's Board of Directors in accordance with the Audit Committee's charter and applicable laws and regulations. With respect to related party transactions with the Government, under the terms of the Concession, all contracts among Saudi Aramco 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 Saudi Aramco policy, Saudi Aramco is required to negotiate related party transactions on an arm's length basis and such transactions are subject to review by the Audit Committee. Saudi Aramco's Bylaws require that no member of the Board of Directors nor any officer of Saudi Aramco may have a personal interest, as determined by the Board of Directors, in any transaction made on behalf of Saudi Aramco, unless prior authorisation is received from the Board of Directors.

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

### 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 licencee's rights and does not hinder the hydrocarbon operations conducted by a licencee.

#### *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 licencee, title to such hydrocarbons shall automatically pass to the licencee 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*

The Ministry of Energy is the only body responsible for implementing the Hydrocarbons Law and overseeing all aspects of a licencee's hydrocarbons operations, including the licencee's technical operations and the review of all the licencee's revenues and expenses. The Ministry of Energy acts as a liaison between relevant bodies and the licencee in relation to a licence. The Ministry of Energy is also responsible for preparing and overseeing the national strategies and policies related to hydrocarbons to ensure the implementation, development and appropriate use of hydrocarbon resources, and conservation of the Kingdom's hydrocarbon reserves for future generations.

#### *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 licencee can produce at any given point in time and the level of MSC that a licencee 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 licencee. A licencee 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, the Hydrocarbons Law and regulations, and in an economically feasible and efficient manner that promotes the long-term productivity of reservoirs in the licensed area and supports the prudent stewardship of hydrocarbon resources and hydrocarbons, and limits their abandonment.

***Additional Licencee Obligations***

A licencee is responsible for taking all prudent and sound procedures to ensure the safety of the licencee's hydrocarbon operations and facilities, in accordance with international industry standards and applicable laws. A licencee is also obligated to take all required precautions, in accordance with the relevant hydrocarbons regulations and international industry standards, to prevent waste and leakage of hydrocarbons, damage to formations containing water and hydrocarbons during drilling, repairing or deepening of wells, or in events of abandonment or relinquishment, and to prevent leakage of gas and liquids into bearing layers or other layers.

The Hydrocarbons Law prohibits any licencee 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 and sales and marketing (each, a "**Regulated Activity**") of any gaseous or liquid hydrocarbons (other than crude oil or condensate) produced in the Kingdom which have been subject to treatment in a gas treatment plant ("**Regulated Hydrocarbons**").

***Licences***

Pursuant to the GSPR, a licence is required for the conduct of any Regulated Activity. In considering an application for a licence, the Ministry of Energy takes into account the long-term security of supply of any Regulated Hydrocarbons, the avoidance of undesirable duplication consistent with the optimal development of the Kingdom's gas industry and the proximity of the proposed Regulated Activity to the MGS.

***Saudi Aramco as Aggregators and Tariffs***

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

The Ministry of Energy publishes transportation, processing and fractionation tariffs, and other terms and conditions applicable to the MGS and to connections to the MGS as prescribed in the rules of implementation of the GSPR. The tariff and other terms and conditions for services provided through any pipeline that is not connected to the MGS are negotiated between the relevant parties. The rules of implementation of the GSPR set out the criteria for determining third-party access tariffs which may be charged for the utilisation of any local distribution system.

***Marketing and Sales Rights; Price for Natural Gas***

Pursuant to the GSPR, Saudi Aramco performs all domestic marketing and sales of natural gas and NGLs from the MGS with certain exceptions. Saudi Aramco also undertakes the export of NGLs produced within the Kingdom. Any company that produces Regulated Hydrocarbons in the Kingdom and does not access the MGS may domestically consume, sell or otherwise domestically dispose of such relevant hydrocarbon as per the terms set by the Ministry of Energy. All natural gas produced by any company is to be priced at the regulated price in the Kingdom at the point of delivery to a major consumer or to a licencee 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 of Energy pursuant to criteria set by the Ministry of Energy on the basis of sectorial demand estimates for each of the electricity sector, the petrochemical sector, the water desalination sector, the oil sector and other industrial sectors, reflecting the usages of natural gas and NGLs that achieve the optimal efficiency and produce the highest added value to the national economy of the Kingdom.

**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 certain refined products (kerosene, diesel, heavy fuel oil and gasoline).

***Liquids Price Equalisation***

Pursuant to Council of Ministers Resolution No. 406, dated 28/6/1438 in the Hijri calendar (corresponding to 27 March 2017), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/2465/1439, dated 10/4/1439 in the Hijri calendar (corresponding to 28 December 2017), when Saudi Aramco sells crude oil and certain refined products (each a "**Relevant Liquid Product**") domestically at a price below the corresponding equalisation prices (described below), Saudi Aramco is entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of Saudi Aramco's compliance with the Kingdom's current pricing mandates (the "**Liquids Price Equalisation**"). The Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/424/1441, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), effective 1 January 2020, supersedes the prior Ministerial Resolution and expand the equalisation mechanism to include LPGs and certain other products. In the event the equalisation price is less than the regulated price, the difference would be due from Saudi Aramco to the Government.

The Ministry of Energy is responsible for administering the Liquids Price Equalisation regime, including the setting of the equalisation prices from time to time. The equalisation prices are established separately by the Ministry of Energy for each Relevant Liquid Product using a combination of either internationally recognised indices or, where relevant, Saudi Aramco's official selling price and, depending on the Relevant Liquid Product, on the basis of export parity, import parity or a combination of both. Saudi Aramco is required to provide information and technical assistance to the Ministry of Energy as necessary for this purpose.

The compensation from the Government is accounted for on a monthly basis and is calculated as the positive difference between the equalisation prices and the regulated prices (minus any Government fees). Saudi Aramco must provide the Ministry of Energy with a statement detailing the total amount due to Saudi Aramco in a monthly period no later than 30 days after the relevant monthly period end. Saudi Aramco may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by Saudi Aramco to the Government, such as royalties.

***Gas Pricing***

From time to time, the Kingdom establishes certain prices for the domestic sale of gas hydrocarbons (the "**Domestic Price**"), including those for Regulated Gas Products. Pursuant to Council of Ministers Resolution No. 370, dated 10/7/1439 in the Hijri calendar (corresponding to 27 March 2018), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 01-5928-1439, dated as at 27/8/1439 in the Hijri calendar (corresponding to 13 May 2018), effective 17 March 2018, the Kingdom established the price due to licencees for the domestic sale of Regulated Gas Products (the "**Blended Price**") in order to ensure that licencees making gas investments realise a commercial rate of return suitable for the development and exploitation of gas resources in the Kingdom (with reasonable rates of return on existing non-associated gas projects and on incremental future non-associated projects).

Effective 17 September 2019, Council of Ministers Resolution No. 55, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), and the Ministerial Resolution issued by the Ministry of Energy, in agreement with the Ministry of Finance, No. 1/423/1441, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), were passed, superseding the prior Council of Ministers' resolutions and ministerial resolutions, and removing the requirement that the Domestic Price be no less than the Blended Price. The new framework instead provides that the licencees are entitled to compensation from the Government in an amount equal to the cost of the revenues directly forgone as a result of the licencees' compliance with the Kingdom's pricing mandates if the Domestic Prices are not set at least at the Blended Prices. In the event that the Blended Price is less than the Domestic Price, the difference would be due from Saudi Aramco to the Government.

The Ministry of Energy is responsible for administering this regime, including setting the Blended Prices from time to time. The Blended Prices are established separately by the Ministry of Energy for each Regulated Gas Product. Saudi Aramco is required to provide information and technical assistance to the Ministry of Energy as necessary for this purpose.

The compensation from the Government is accounted for on a monthly basis and is calculated as the positive difference between the Blended Prices and the Domestic Prices (minus any Government fees). Saudi Aramco must provide the Ministry of Energy with a statement detailing the total amount due to Saudi Aramco in a monthly period no later than 30 days after the relevant monthly period end. Saudi Aramco may then offset this compensation against any taxes payable, and in the event taxes are insufficient, any other amounts due and payable by Saudi Aramco to the Government, such as royalties.

***Government Guarantee***

Saudi Aramco 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. The Government guarantees amounts due to Saudi Aramco from these entities, subject to a limit on the amount of the guarantee for each entity. The aggregate amount guaranteed in 2017, 2018 and 2019 was SAR 22.4 billion, SAR 32.7 billion and SAR 26.7 billion, respectively. Prior to the beginning of each subsequent fiscal year or during such year upon the change to any Government established domestic prices for hydrocarbon products (such regulated sales constituting the majority of the sales to Government and semi-Government entities covered by the guarantee), the Ministry of Energy will consult with the Ministry of Finance and will provide Saudi Aramco 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 Saudi Aramco on a timely basis for five years. Saudi Aramco 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. Saudi Aramco may set off any guaranteed amounts that are past due against taxes due to the Government, or if the amount of taxes is inadequate, any other amounts Saudi Aramco owes to the Government.

**Other Relevant Laws and Regulations**

***Petrochemical Regulations***

Pursuant to Royal Order No. 2448, dated 01/14/1442 in the Hijri calendar (corresponding to 2 September 2020), the Ministry of Industry and Mineral Resources now acts as the primary regulator for petrochemical operations in the Kingdom in place of the Ministry of Energy. To date, the Ministry of Industry and Mineral Resources has not issued any regulations exercising this new regulatory authority over the operations of Saudi Aramco or its affiliates.

***Health and Safety Regulations***

Health and safety matters associated with oil and gas activities are regulated through several Government authorities, including the Ministry of Interior. In addition, the High Commission for Industrial Security issues safety and fire protection directives for industrial facilities which set forth minimum requirements for health and safety management systems. Health and safety principles and obligations are included in Part 8 (Protection against Occupational Hazards, Major Industrial Accidents and Work Injuries, and Health and Social Services) of the Saudi Arabian Labour Law issued under Royal Decree No. M/51, dated 23/8/1426 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 the MEWA are charged with the general supervision of environmental affairs in the Kingdom. This law sets out wide-ranging prohibitions of pollution and contamination of air, land and water, with particular reference to all parties involved in services, industry or other economic activities. Owners of "projects", which are defined as utilities and facilities that may have an effect on the environment, are required to comply with existing and future environmental specifications, standards, measurements and guidelines as promulgated by GAMEP or the MEWA and set out in the appendices of the corresponding implementing regulations. Prior to the initiation of a project, an environmental evaluation study, identifying: (i) potential environmental impacts; (ii) appropriate actions and means to prevent or reduce negative impacts; or (iii) appropriate actions to increase the project's positive returns to the environment, must be completed in accordance with the relevant environmental specifications and standards.

Apart from national environmental legislation, other regulations are applicable in certain areas of the Kingdom. The Royal Commission for Jubail and Yanbu' has issued detailed local environmental regulations applicable to facilities located within the Royal Commission areas and contractors operating therein (i.e., the Jubail Industrial City Royal Commission Environmental Regulations of September 1999). Saudi Aramco separately requires compliance with environmental standards in certain circumstances. For example, Saudi Aramco administers the oil loading terminals at Ras Tanura, Ju'aymah and several smaller terminals independently of the Saudi Ports Authority.

### *Saudisation*

The Kingdom has promulgated a Saudisation policy ("**Saudisation**") implemented by the Ministry of Human Resources 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 Saudi nationals. The Nitaqat Saudisation Programme (the "**Nitaqat Programme**") was approved pursuant to the Minster of Labour and Social Development (predecessor to the Minister of Human Resources 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 Human Resources and Social Development 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. Saudi Aramco has been classified under the "High Green" category, which means that Saudi Aramco complies with the current Saudisation requirements, which accordingly allow the compliant companies to secure work visas. As at 31 December 2019, approximately 88.5% of Saudi Aramco's employees and approximately 95.7% of Saudi Aramco's senior management and leadership teams were Saudi nationals.

Moreover, the Ministry of Human Resources and Social Development has approved a new amendment to the Nitaqat Programme under the "Nitaqat Mawzon" Programme in order to improve the market's performance and development and to eliminate non-productive nationalisation. It was intended to come into effect on 12/3/1438 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 Human Resources 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 depositary for, and registered in the name of a nominee of such common depositary, 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 depositary 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 10 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 (Saudi Aramco) (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 2020 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 2020 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 Citigroup 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 or the United Kingdom nor offered in the European Economic Area or the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Regulation, 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 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case $D_1$ will be 30; and

"$\mathbf{D_2}$" 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 $D_1$ is greater than 29, in which case $D_2$ 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case $D_1$ will be 30; and

"$\mathbf{D_2}$" 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 $D_2$ 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" 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 $D_1$ will be 30; and

"$\mathbf{D_2}$" 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 $D_2$ 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:

Early Redemption Amount = $RP \times (1 + AY)^{y}$ (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 AND UNITED KINGDOM 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**") or the United Kingdom ("**UK**"). 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, 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 "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPs Regulation.]

**Final Terms dated [●]**

**SAUDI ARABIAN OIL COMPANY (SAUDI ARAMCO)**

**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 [●] 2020 [and the supplement[s] to it dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") (the "**Base Prospectus**"). This document constitutes the Final Terms of the Notes described herein prepared for the purposes of the Prospectus Regulation 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 Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") 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 Regulation (the "**Base Prospectus**"), save in respect of the Conditions which are extracted from the Base Prospectus dated [●] 2020 [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 [●] 2020 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]<br>[[●]+/-[●]% Floating Rate]<br>[Zero Coupon]<br>(See paragraph [13/14/15] below) |
| 10. | Redemption/Payment Basis: | | [Redemption at par] |
| 11. | Put/Call Options: | | [Issuer Call]<br>[Issuer Maturity Par Call]<br>[Investor Put]<br>[Change of Control Put]<br>[(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): | [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] |
| | (v) | Day Count Fraction: | [Actual/Actual (ICMA) / 30/360 / Actual/365 (Fixed) / other] |
| | (vi) | Determination Dates: | [[●] in each year/Not Applicable (*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)*)] |
| | (vii) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable] |
| 14. | **Floating Rate Note Provisions** | | [Applicable/Not Applicable] |
| | | | (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) | Interest Period(s): | [[●] [, 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: | [[●] 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]/ [[●] 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/[●]] |
| (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): | [●] |
| (viii) | Screen Rate Determination: | [Applicable/Not Applicable] |
| | • Reference Rate: | [[●] month LIBOR/EURIBOR] |
| | • Interest Determination Date(s): | [●] |
| | • Relevant Screen Page: | [●] |
| (ix) | Reference Rate Replacement: | [Applicable/Not Applicable] |
| (x) | ISDA Determination: | [Applicable/Not Applicable] |
| | • Floating Rate Option: | [●] |
| | • 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 (*specify for each short or long interest period*)] |
| (xii) | Margin(s): | [+/-][●]% per annum |
| (xiii) | Minimum Rate of Interest: | [●]% per annum |
| (xiv) | Maximum Rate of Interest: | [●]% per annum |
| (xv) | Day Count Fraction: | [●] |
| 15. | **Zero Coupon Note Provisions** | [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]] |

**PROVISIONS RELATING TO REDEMPTION**

| | | | |
|---|---|---|---|
| 16. | **Issuer Call** | | [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. | **Issuer Maturity Par Call** | | [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. | **Investor Put** | | [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. | **Change of Control Put** | | [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) | 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 and to be listed on the Official List of the FCA with effect from [●].] |
| (ii) | 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] |
| | [Each of [Moody's and Fitch] is established in the United Kingdom and is registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**").] |

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 23 of the Prospectus Regulation*.)]

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 and UK Retail Investors: | [Applicable/Not Applicable] |

7. **OPERATIONAL INFORMATION**

| | |
|---|---|
| Common Code: | [●] |
| ISIN: | [●] |
| CUSIP: | [●] |
| 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: | [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] |
| Any clearing system(s) other than [DTC,] Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s): | [Not Applicable/*give name*(*s*) *and number*(*s*)] |
| Delivery: | Delivery [against/free of] payment |
| Names and addresses of additional Paying Agent(s) (if any): | [●] |

# 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 law and Zakat regulations*

*Income Tax*

According to the Income Tax Law, a resident company in the Kingdom with foreign (i.e., non-GCC) ownership (on its foreign partner's (shareholder's) share) and a non-resident who carries out business in the Kingdom through a Permanent Establishment (as defined below, other than a Permanent Establishment of GCC persons that meets the conditions set out under Article 2(4) of the Zakat Regulations) are subject to corporate income tax in the Kingdom at the rate of 20% (if not engaged in oil and hydrocarbon production activities, see below). Resident companies wholly owned by GCC Persons (in addition to persons subject to Zakat listed below under the section entitled "Zakat") are subject to Zakat instead of corporate income tax. Resident companies owned jointly by GCC and non-GCC Persons are subject to corporate income tax in respect of the share of their taxable profit attributable to the ownership (legal or beneficial) percentage held by non-GCC Persons and Zakat on the ownership (legal or beneficial) percentage held by GCC Persons.

Shares held directly by GCC Persons or via other GCC companies (where the shareholding structure does not fall outside of the GCC) in a resident company are subject to Zakat and not income tax. In determining the tax/Zakat profile of a Saudi tax/Zakat resident company, the GAZT applies a "look-through" approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (i.e., at the ultimate shareholder level). The amendments to the implementing regulations of the Income Tax Law issued under Ministerial Resolution No. 1727 dated 25/5/1439 in the Hijri calendar (corresponding to 10 February 2018) have introduced new provisions that may limit the "look-through" approach by GAZT to up to two layers of shareholding above the relevant Saudi company. These amendments have not yet been comprehensively tested with GAZT to assess their practical application.

Saudi resident entities operating in the oil and hydrocarbon production sector are subject to corporate income tax irrespective of the nationality of their shareholders/owners. According to the Income Tax Law, the tax rates applicable to such entities to range from 50% to 85% depending on the level of total capital investment of the relevant entity:

- entities with capital investment of more than SAR 375 billion ($100 billion) are subject to 50% corporate income tax;
- entities with capital investment between SAR 300 billion ($80 billion) to SAR 375 billion ($100 billion) are subject to 65% corporate income tax;
- entities with capital investment between SAR 225 billion ($60 billion) to SAR 300 billion ($80 billion) are subject to 75% corporate income tax; and
- entities with capital investment of less than SAR 225 billion ($60 billion) are subject to 85% corporate income tax.

However, Royal Decree No. M/13, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019), Council of Ministers Resolution No. 54, dated 18/1/1441 in the Hijri calendar (corresponding to 17 September 2019) and Ministerial Resolution issued by the Ministry of Finance No. 559, dated 10/2/1441 in the Hijri calendar (corresponding to 9 October 2019) provide that the tax rate applicable to the downstream activities (as is expected to be defined by GAZT in collaboration with the Ministry of Energy) of certain tax payers undertaking domestic oil and hydrocarbon production activities will be the general corporate tax rate of 20%, for a five-year period beginning on 1 January 2020, provided the relevant taxpayer splits its downstream activities from the oil and hydrocarbon production activities (into one or more separate legal entities) before 31 December 2024. If the taxpayer does not comply in so consolidating its downstream activities from the oil and hydrocarbon production activities by 31 December 2024, income from downstream activities will be taxed retroactively on an annual basis for such five-year period in accordance with the multi-tiered tax rates applicable to domestic oil and hydrocarbon production companies. In such case, the taxpayer will be required to pay the difference in taxes due to the Government.

In addition, effective 1 January 2018, a 20% corporate income tax rate applies to companies engaged in natural gas activities (previously 30%). Companies involved in both oil and hydrocarbons production activities as well as natural gas investment are required to prepare tax computation for each activity separately.

Furthermore, according to amendments to the Income Tax Law, effective 1 January 2017, ownership by companies engaged in oil and hydrocarbon production activities in Saudi Arabian entities that are not carrying out oil and hydrocarbons production activities should generally be subject to corporate income tax at 20% (at the level of the investee/subsidiary). Additionally, by Royal Decree No. M/153 dated 05/11/1441 in the Hijri calendar (corresponding to 26 June 2020), the Income Tax Law was further amended to provide that shares held directly or indirectly in Saudi tax resident companies that are not carrying out oil and hydrocarbons production activities and listed on Tadawul by taxpayers engaged in oil and hydrocarbon activities are now exempt from corporate income taxes and instead subject to Zakat, including their indirect interest in those companies (at the level of the investee/subsidiary)

Non-GCC natural persons resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Chapter 1—Article 1 of the Income Tax Law, and Chapter 1—Article 1 of the Zakat Regulations, as defined below) are not currently subject to income tax or Zakat in the Kingdom according to existing practices of GAZT (as compliance/administration of Income Tax Law is not currently enforced by GAZT on individuals).

*Zakat*

Zakat is a religious obligation imposed on Muslims under Sharia to pay a fixed percentage of their wealth for the relief of poverty. The Zakat implementing regulations of the Kingdom were issued by Ministerial Resolution No. 2082, dated 28 February 2017 (the "**Old Zakat Regulations**"). The Old Zakat Regulations are effective from the date of their issuance and supersede all prior directives, resolutions, instructions and circulars issued by GAZT. Furthermore, the Ministry of Finance has issued new Zakat implementing regulations under Ministerial Resolution No. 2216 dated 7/7/1440 in the Hijri calendar (corresponding to 14 March 2019) ("**Zakat Regulations**"). The Zakat Regulations are effective (and replace the Old Zakat Regulations) for financial years starting 1 January 2019.

The rules governing the calculation of Zakat are complex. Separate rules are applicable for the calculation of Zakat by Zakat payers who are engaged in the Kingdom in financing activities (licensed by the Saudi Arabian Monetary Authority) and Zakat payers who are engaged in the Kingdom in non- financing activities. This "Taxation" section broadly covers the Zakat consequences of investment in Notes by the investors who are engaged in non-financing activities in the Kingdom.

According to the Zakat Regulations, Zakat is assessed on/applicable to:

- GCC Persons resident in the Kingdom;
- resident companies wholly owned by GCC Persons and on the ownership (legal or beneficial) percentage held by GCC Persons with respect to a resident company jointly owned by GCC and non-GCC Persons;

- GCC Persons carrying out activities in the Kingdom through a Permanent Establishment for Zakat purposes as defined under Chapter 1—Article 2(4) of the Zakat Regulations (except for non-resident GCC Persons who do not meet certain conditions, as mentioned below, in which case they would be subject to corporate income tax); and
- resident companies listed on a financial market in the Kingdom on the shares held by GCC persons and non-GCC Persons (except for ownership by founder shareholders and those considered founder shareholders based on the articles of association or other legal documents), and on the shares held by government entities.

Notwithstanding the above, Zakat is not assessed/applicable to:

(i) resident companies operating in the oil and hydrocarbon production sector; and

(ii) any entity (or Zakat payer) for which GAZT (or the Ministry of Finance) issues a decision to exempt from Zakat.

Based on exclusion (i) set forth above, resident companies operating in the oil and hydrocarbon production sector should continue to be subject to corporate income tax (and not Zakat).

For completeness, as per the Zakat Regulations, a Permanent Establishment of GCC Persons in the Kingdom is subject to Zakat provided at least two of the following three conditions are met in respect of the central management of such Permanent Establishment (as set out under Chapter 1—Article 2(4)):

(i) Board of Directors' ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment's business are held in and made from the Kingdom;

(ii) senior executive decisions relating to the Permanent Establishment's functions such as executive directors / deputies' decisions are made in the Kingdom; and

(iii) the GCC Person'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 on Zakat payers engaged in non-financing activities is currently levied on the higher of the adjusted Zakatable profits or the Zakat base (following a Hijri year) which, in general, comprises equity, loans and credit balances (subject to certain conditions) and provisions reduced by, among other items, certain deductible long-term investments and fixed assets. The Zakat rate on the Zakat base is 2.578% if a zakat payer is following the Gregorian financial year and 2.5% if a zakat payer is following Hirji financial year. The Zakat rate on Zakatable profit is 2.5% regardless of the financial year (Gregorian or Hijri) followed by the zakat payer.

GCC individuals resident in the Kingdom for tax/Zakat purposes should in principle be subject to Zakat in the Kingdom if they carry out activities in the Kingdom.

*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 rather than on the sale of goods. 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.

***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, 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 5(4)of the Zakat Regulations and the current practices of the GAZT (other than for financing companies in the Kingdom, for which different Zakat rules apply).

Noteholders who are GCC natural persons and resident in Saudi Arabia are not subject to Zakat in Saudi Arabia as per the Zakat Regulations in respect of any interest payments received or gain realised in respect of the Notes, unless the Noteholders' investment in the Notes is connected to such Noteholders' business activity in Saudi Arabia. If such income is connected to such Noteholders' business activity in Saudi Arabia, such amounts generally will be subject to Zakat in Saudi Arabia.

*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% (assuming they are owned by non-GCC persons and not listed on a financial market in the Kingdom) on any interest received or gain realised in respect of the Notes, 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 1—Article 1 of the Income Tax Law) are not currently subject to Saudi Arabian income tax 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 on individuals).

*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 GCC countries other than the Kingdom)) 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 a 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 cases 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 GCC Persons with a Permanent Establishment in the Kingdom that meet the conditions set out under Chapter 1—Article 2(4) of the Zakat Regulations).

*Indirect and Transfer Taxes*

There are no transfer taxes currently applicable in Saudi Arabia (other than the newly introduced rules for real estate transaction/transfer taxes).

The Kingdom has introduced VAT with an effective date of 1 January 2018 pursuant to ratifying the GCC VAT framework agreement between the GCC member states. The VAT legislation in the Kingdom exempts certain financial services (including interest for financing, which would include financing in the form of Notes) from VAT.

***Definitions***

For the purposes of this summary:

(a) A "**GCC Person**" means: (i) a natural person having the nationality of any of the GCC countries and (ii) any legal entity wholly owned by GCC nationals and established under the laws of a GCC country;

(b) Subject to the exceptions stipulated in the Income Tax Law, a "**Permanent Establishment**" of a non-resident in the Kingdom represents a permanent place for the non-resident's activity where such person conducts the activity either fully or partly, which also includes any activity conducted by the non-resident through an agent. A non-resident carrying out an activity in the Kingdom through a licensed branch is considered to have a Permanent Establishment in the Kingdom.

(c) A person is "**resident**" in 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***

A U.S. Holder that uses an accrual method of accounting for U.S. federal income tax purposes and maintains certain types of financial statements generally will be required to include certain amounts in income no later than the time such amounts are reflected on the financial statements of such U.S. Holder. The application of this rule may require certain U.S. Holders to include certain amounts realised in respect of the Notes in income prior to the time such amounts would otherwise be included pursuant to the rules described below. The precise application of this rule remains uncertain. However, recently released proposed U.S. Treasury Regulations, which are not yet in effect but upon which taxpayers may rely, generally exclude, among other items, original issue discount and market discount (in either case, whether or not *de minimis*) from the applicability of this rule. U.S. Holders that use the accrual method of accounting should consult their tax advisors regarding the potential applicability of this rule 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).

Under proposed U.S. Treasury Regulations, Notes that reference IBOR that are treated as having a "qualified floating rate" will not fail to be so treated solely because the terms of such Notes provide for a replacement of such IBOR in the case of a Benchmark Event. In particular, under such proposed U.S. Treasury Regulations, an IBOR-referencing rate and the applicable replacement rate are treated as a single "qualified floating rate" for purposes of the rules discussed above. These proposed U.S. Treasury Regulations can be relied upon until final regulations adopting the proposed rules are published in the U.S. Federal Register. U.S. Holders should consult their tax advisers regarding the consequences of the occurrence of a Benchmark Event on their investment in the Notes.

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.

### *Replacement of an IBOR-Referencing Rate of Interest with a Replacement Rate Following a Benchmark Event*

Following the occurrence of a Benchmark Event, the rate of interest on any Notes that provide for an IBOR-referencing rate will be determined based on the applicable Successor Reference Rate or Alternative Reference Rate (each a "**Replacement Rate**"). It is possible that the replacement of an IBOR-referencing rate with a Replacement Rate could be treated, for U.S. federal income tax purposes, as a significant modification of such Notes, in which case, such "old" Notes would be treated as having been exchanged for "new" notes (a "**Deemed Exchange**"). Upon the occurrence of a Deemed Exchange, a U.S. Holder may be required to recognise taxable gain with respect to such Notes as a result of such Deemed Exchange. In addition, such deemed "new" notes may be treated as being issued with OID. Notwithstanding the foregoing, and although this issue is not free from doubt, since any such substitution of a Replacement Rate for an IBOR-referencing rate would occur pursuant to the original terms of the Notes, a Deemed Exchange is not expected to occur and U.S. Holders are therefore not expected to be required to recognise taxable gain with respect to the Notes. U.S. Holders should consult their tax advisors regarding the impact of a Benchmark Event in their investment in the Notes.

### *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 a 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.

***Other Types of Notes***

Certain types of Notes that may be issued by the Issuer under the Programme are not discussed herein. To the extent applicable, the U.S. federal income tax considerations will be specified in the relevant supplement to the Base Prospectus issued in connection with those Notes.

***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 U.S. 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 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 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 (including equity capital markets transactions, debt capital markets transactions or mergers and acquisitions advisory work) and/or other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries and affiliates or with entities that are undertaking ordinary course business with the Issuer and/or its subsidiaries and/or affiliates. The Dealers 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 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 and United Kingdom Retail Investors**

Unless the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", each Dealer will represent and agree, 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 or the United Kingdom.

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 (EU) 2016/97 (as amended), 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 and UK Retail Investors" as "Not Applicable", in relation to each Member State of the EEA and the United Kingdom (each, a "**Relevant State**"), each Dealer will represent and agree, and each further Dealer appointed under the Programme will be required to represent and agree, that 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 State, except that it may make an offer of such Notes to the public in that Relevant State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), 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 1(4) of the Prospectus Regulation,

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 Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, (i) the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant 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; and (ii) the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

**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**

Each Dealer will undertake and agree, and each further Dealer appointed under the Programme will be required to undertake and agree, that this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes and the Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, 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 Board Resolution No. 3-123-2017 dated 9/4/1439 in the Hijri calendar (corresponding to 27 December 2017) as amended by CMA Board Resolution No. 1-104-2019 dated 1/2/1441 in the Hijri calendar (corresponding to 30 September 2019) (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 Conduct of Business (COB) 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.

**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 update 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 [●] November 2020.

### 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 and on the website of the Issuer at www.aramco.com/investors:

(i) the constitutional documents of the Issuer (with an English translation thereof);

(ii) the Financial Statements;

(iii) the SABIC Financial Statements;

(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 EEA or the UK nor offered in the EEA or the UK in circumstances where a Base Prospectus is required to be published under the Prospectus Regulation 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 performance or financial position of the Issuer and its subsidiaries, taken as a whole, since 30 September 2020, and no material adverse change in the prospects of the Issuer since 31 December 2019.

**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 position or profitability.

**Auditor**

The current auditor of Saudi Aramco is 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. Saudi Aramco's 2018 Financial Statements and 2019 Financial Statements included in this Base Prospectus have been audited by PricewaterhouseCoopers Public Accountants, independent auditors, as stated in its 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.

With respect to the unaudited financial information of Saudi Aramco for the three and nine-month periods ended 30 September 2020, included in the Base Prospectus, PricewaterhouseCoopers Public Accountants reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 2 November 2020 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

**Expert**

Certain information in this Base Prospectus with respect to crude oil and condensate and natural gas reserves as at 31 December 2019 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 Saudi Aramco.

**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 and has not been scrutinised or approved by the FCA.

**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

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| **2018 Financial Statements** | The audited consolidated financial statements of Saudi Aramco 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. |
| **2019 Financial Statements** | The audited consolidated financial statements of Saudi Aramco for the year ended 31 December 2019 (with comparative data as at and for the year ended 31 December 2018) prepared in accordance with IFRS. |
| **2019 SABIC Financial Statements** | The audited consolidated financial statements of SABIC as at and for the year ended 31 December 2019 (with comparative data as at and for the year ended 31 December 2018) prepared in accordance with IFRS. |
| **2020 Nine Month Interim Period Financial Statements** | The condensed consolidated interim financial report of Saudi Aramco as at and for the three and nine month periods ended 30 September 2020 (unaudited) (with comparative data for the three and nine month periods ended 30 September 2019) prepared in accordance with IAS 34. |
| **2020 SABIC Nine Month Interim Financial Statements** | The unaudited interim condensed consolidated financial statements of SABIC as at and for the three and nine month periods ended 30 September 2020 (with comparative data for the three and nine month periods ended 30 September 2019) prepared in accordance with IAS 34. |
| **affiliate** | 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. |
| **AGOC** | Aramco Gulf Operations Company Ltd. |
| **API** | The American Petroleum Institute, which is the major United States trade association for the oil and gas industry. |
| **ARLANXEO** | Arlanxeo Holding B.V., a wholly owned specialty chemicals subsidiary. |
| **Arrangers** | J.P. Morgan Securities plc and Morgan Stanley & Co. International plc. |
| **ATC** | Aramco Trading Company, a wholly owned subsidiary of the Issuer. |
| **BP** | BP plc. |
| **Bylaws** | The Bylaws of Saudi Aramco, 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. |
| **CAGR** | Compound annual growth rate (the average annual growth rate over a specified period of time longer than one year). |
| **CASOC** | California Arabian Standard Oil Company. |
| **Chevron** | Chevron Corporation. |
| **Companies Law** | The Companies Law, issued under Royal Decree No. M/3, dated 28/1/1437 in the Hijri calendar (corresponding to 10 November 2015). |
| **Concession Area** | The territorial lands and maritime areas of the Kingdom other than those located in (i) the boundaries of the Holy Mosques in Makkah Al- |

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| | 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. |
| **Council of Ministers** | The cabinet of the Kingdom, which is led by the Custodian of the Two Holy Mosques, the King and includes HRH the Crown Prince and other cabinet ministers. |
| **D&M** | DeGolyer & MacNaughton, Saudi Aramco's independent petroleum consultant. |
| **Dealers** | J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Citigroup Global Markets Limited, Goldman Sachs International, HSBC Bank plc, NCB Capital Company and any other Dealers appointed in accordance with the Dealer Agreement. |
| **Dow** | Dow Inc. |
| **Enforcement Law** | 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. |
| **Excluded Areas** | The limited area excluded from Saudi Aramco'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. |
| **ExxonMobil** | ExxonMobil Corporation. |
| **FCA** | The Financial Conduct Authority, a financial regulatory body in the United Kingdom. |
| **Financial Statements** | The 2018 Financial Statements, the 2019 Financial Statements and the 2020 Nine Month Interim Period Financial Statements. |
| **FREP** | 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. |
| **FSIA** | U.S. Foreign Sovereign Immunity Act. |
| **Gas Field Development Area** | The location of the relevant field in connection with a Gas Field Development Project. |
| **Gas Field Development Project** | Each development of specified non-associated gas fields located in the Concession Area. |
| **GAZT** | The Saudi Arabian General Authority of Zakat and Tax. |

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| **GCC** | 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. |
| **GDP** | 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). |
| **GHG** | Greenhouse gas. |
| **Government** | The Government of the Kingdom. |
| **GSPR** | 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). |
| **Hydrocarbons Law** | 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 "*Regulation of the Oil and Gas Industry in the Kingdom—Law on Hydrocarbons*". |
| **IAS 34** | The International Accounting Standard 34 "Interim Financial Reporting" that is endorsed in the Kingdom. |
| **IASB** | The International Accounting Standards Board. |
| **IFRS** | International Financial Reporting Standards, that are endorsed in the Kingdom, and other standards and pronouncements endorsed by SOCPA. |
| **Income Tax Law** | 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. |
| **Industry Consultant** | IHS Markit Ltd. |
| **Investor's Currency** | The currency or currency unit an investor's financial activities are principally denominated in. |
| **IOCs** | International oil companies. |
| **IRS** | The U.S. Internal Revenue Service. |
| **KAPSARC** | King Abdullah Petroleum Studies and Research Center. |
| **KAUST** | King Abdullah University of Science and Technology. |
| **KFUPM** | King Fahd University of Petroleum and Minerals. |
| **Lanxess** | Lanxess Deutschland GmbH. |
| **LCIA** | The London Court of International Arbitration. |

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| **Luberef** | Saudi Aramco Base Oil Company, a joint venture between Saudi Aramco and Jadwa Industrial Investment Company, which acquired its share from Mobil in 2007. |
| **MEIM** | The Ministry of Energy, Industry and Mineral Resources of the Kingdom. |
| **MENA** | Middle East and North Africa. |
| **MEWA** | The Ministry of the Environment, Water and Agriculture of the Kingdom. |
| **MGS** | Master Gas System, an extensive network of pipelines that connects Saudi Aramco's key gas production and processing sites throughout the Kingdom. |
| **Ministry of Energy** | The Ministry of Energy of the Kingdom. |
| **Ministry of Human Resources and Social Development** | The Ministry of Human Resources and Social Development of the Kingdom. |
| **Ministry of Industry and Mineral Resources** | The Ministry of Industry and Mineral Resources of the Kingdom. |
| **Ministry of Labour and Social Development** | The Ministry of Labour and Social Development of the Kingdom. |
| **Motiva** | Motiva Enterprises LLC. |
| **New York Convention** | The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. |
| **NOCs** | National oil companies. |
| **OECD** | Organisation for Economic Co-operation and Development. |
| **OID** | Original issue discount. |
| **OPEC** | Organisation of the Petroleum Exporting Countries. |
| **Paris Agreement** | The United Nations Framework Convention on Climate Change Paris Agreement. |
| **Participants** | Direct Participants and Indirect Participants. |
| **person** | Any natural or legal person recognised as such under the laws of the Kingdom. |
| **Petro Rabigh** | Rabigh Refining and Petrochemical Company, a venture established by Saudi Aramco and Sumitomo Chemical Co., Ltd. in 2005, which is a publicly traded company listed on Tadawul. |
| **Petronas** | Petroliam Nasional Bhd. |
| **PIF** | Public Investment Fund of the Kingdom. |
| **PRefChem** | Pengerang Petrochemical Company Sdn. Bhd. and Pengerang Refining Company Sdn. Bhd. |

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| **R&D** | Research and development. |
| **Regulated Gas Products** | Gas hydrocarbons which are subject to the Kingdom's gas pricing regime, including natural gas, ethane and NGLs (propane, butane and natural gasoline). |
| **Reserved Areas** | The areas reserved for Saudi Aramco's operations within the Concession Area. |
| **SABIC** | Saudi Arabian Basic Industries Corporation. |
| **SABIC Financial Statements** | The 2019 SABIC Financial Statements and the 2020 SABIC Nine Month Interim Financial Statements. |
| **Sadara** | Sadara Chemical Company, a joint venture established by Saudi Aramco and Dow Saudi Arabia B.V. in 2011. |
| **SADCO** | Saudi Aramco Development Company. |
| **SAMREF** | Saudi Aramco Mobil Refinery Company Limited, a joint venture established by Saudi Aramco and Mobil Yanbu' Refining Company Inc. in 1982. |
| **SAR** or **Saudi Riyal** | Saudi Arabian Riyal, the lawful currency of the Kingdom. |
| **SASREF** | Saudi Aramco Jubail Refinery Company a subsidiary of Saudi Aramco, formerly known as Saudi Aramco Shell Refinery Company, a joint venture established by Saudi Aramco and Shell Saudi Arabia (Refining) Limited in 1982. |
| **SATORP** | Saudi Aramco Total Refining and Petrochemical Company, a joint venture established by Saudi Aramco and Total Refining Saudi Arabia SAS in 2008. |
| **Saudi Aramco** | Saudi Arabian Oil Company (Saudi Aramco) together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates. |
| **Senior Executives** | The members of the senior management of Saudi Aramco listed in "*Management—Senior Management*". |
| **Senior Management** | The Senior Executives and other officers of Saudi Aramco who, while subordinate to the Senior Executives, are still involved in the management of Saudi Aramco and participate in driving its strategies, decisions or operations. |
| **Shari'ah** | Islamic religious law. |
| **Shell** | Royal Dutch Shell plc. |
| **short-term Note** | A Note that matures one year or less from its date of issuance. |
| **Sinopec** | China Petroleum & Chemical Corporation. |
| **Socal** | Standard Oil of California. |
| **SOCPA** | Saudi Organisation of Certified Public Accountants. |

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| **SPE-PRMS** | Society of Petroleum Engineers—Petroleum Resources Management System. |
| **Stellar** | Stellar Insurance, Ltd. |
| **STEM** | Science, technology, engineering and mathematics. |
| **Sukuk** | Senior unsecured sukuk (*Shari'ah*-compliant certificates) issued under the Sukuk Programme. |
| **Sukuk Programme** | A Saudi domestic sukuk programme established by Saudi Aramco on 22/6/1438 in the Hijri calendar (corresponding to 21 March 2017) for the issuance of up to $10.0 billion (SAR 37.5 billion) in aggregate nominal amount of Sukuk. |
| **Sumitomo** | Sumitomo Chemical Co., Ltd. |
| **Tadawul** | The Saudi Stock Exchange, the sole entity authorised in the Kingdom to act as a securities exchange. |
| **Total** | Total S.A. |
| **VAT** | Value-added tax. |
| **VRDI** | A variable rate debt instrument. |
| **YASREF** | Yanbu' Aramco Sinopec Refinery Company Limited, a joint venture established by Saudi Aramco and Sinopec Century Bright Capital Investment (Amsterdam) B.V. in 2010. |

# APPENDIX B—GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

## Certain Abbreviations and Related Terms

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| **barrels** or **bbls** | Barrels of crude oil, condensate or refined products. |
| **boe** | Barrels of oil equivalent. |
| **bscf** | Billion standard cubic feet. |
| **bTU** | British Thermal Unit. |
| **kBTU** | Thousand British Thermal Units. |
| **m** | Metres. |
| **$m^2$** | Square metres. |
| **mboed** | Thousand barrels of oil equivalent per day. |
| **mmbbl** | Million barrels. |
| **mmboe** | Million barrels of oil equivalent. |
| **mbpd** | Thousand barrels per day. |
| **mmBTU** | Million British Thermal Units. |
| **mmscfd** | Million standard cubic feet per day. |
| **scf** | Standard cubic feet. |

## Certain Terminology

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|---|---|
| **Arabian Extra Light (AXL)** | Crude oil with API gravity of 36° to 40° and sulphur content between 0.5% and 1.3%. |
| **Arabian Heavy (AH)** | Crude oil with API gravity less than 29° and sulphur content greater than 2.9%. |
| **Arabian Light (AL)** | Crude oil with API gravity of 32° to 36° and sulphur content between 1.3% and 2.2%. |
| **Arabian Medium (AM)** | Crude oil with API gravity of 29° to 32° and sulphur content between 2.2% and 2.9%. |
| **Arabian Super Light (ASL)** | Crude oil with API gravity more than 40° and sulphur content less than 0.5%. |
| **catalytic cracking** | A process by which hydrocarbon molecules are broken down (cracked) into lighter fractions by the action of a catalyst. |
| **condensate** | Light hydrocarbon substances produced with raw gas which condenses into liquid at normal temperatures and pressures associated with surface production equipment. |

| | |
|---|---|
| **delineation** | 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. |
| **distillation** | A process by which components of a substance are separated by heat or refined by condensation from the resulting vapours. |
| **gross capacity** | The total combined capacity of Saudi Aramco and the joint ventures and other entities in which Saudi Aramco owns an equity interest. |
| **gross refining capacity** | The total combined refining capacity of Saudi Aramco and the joint ventures and other entities in which Saudi Aramco owns an equity interest. |
| **Hydrocarbons** | Crude oil and other hydrogen and carbon compounds in liquid or gaseous state. |
| **lifting costs** | 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. |
| **liquids** | Crude oil, condensate and NGLs. |
| **LNG** | Liquefied natural gas. |
| **LPG** | Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as household fuel. |
| **Maximum Reservoir Contact Wells** | Multilateral wells that come into contact with more than five kilometres of the reservoir. |
| **MSC** | 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. |
| **MTBE** | Methyl tertiary butyl ether. |
| **net capacity** | The capacity of Saudi Aramco, including the capacity of its joint ventures and other entities, multiplied by Saudi Aramco's equity interest in the relevant joint venture or entity. |
| **net refining capacity** | Saudi Aramco's equity share of its gross refining capacity, calculated by multiplying the gross refining capacity of each refinery in which Saudi Aramco has an interest by Saudi Aramco's percentage equity ownership in the entity that owns the refinery. |
| **NGLs** | 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. |

| | |
|---|---|
| **production costs** | 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. |
| **proved reserves** | 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. |
| **reserves life** | Calculated on a barrel of oil equivalent by dividing proved reserves as at a given year-end by production for that year. |
| **reserves replacement ratio** | The reserves added during a period divided by production for that period. |
| **water cut** | Ratio of water produced compared to the volume of total liquids produced from an oil or gas well. |

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

February 24, 2020

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, 2019, of the extent of the proved oil, condensate, liquefied petroleum gas (LPG), and marketable gas reserves of certain properties onshore and offshore the Kingdom of Saudi Arabia in which Saudi Arabian Oil Company has represented it holds a 100-percent interest. This evaluation was completed on February 24, 2020. The properties evaluated include certain fields and reservoirs referred to and listed herein but do not include all fields and reservoirs held by Saudi Arabian Oil Company. Saudi Arabian Oil Company has represented that these properties account for approximately 85 percent of Saudi Arabian Oil Company's net proved oil reserves as of December 31, 2019. The proved reserves estimates prepared by us have been prepared in accordance with the Petroleum Resources Management System (PRMS) approved in March 2007 and revised in June 2018 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists & Engineers. These reserves definitions are discussed in detail under the Definition of Reserves heading of this report.

Reserves estimated herein are expressed as gross reserves and net reserves. Gross reserves are defined as the total estimated petroleum remaining to be produced from these properties after December 31, 2019. Net reserves are defined as that from these properties after December 31, 2019. Net reserves are defined as that portion of the gross reserves attributable to the interests held by Saudi Arabian Oil Company after deducting interests held by others. Saudi Arabian Oil Company has represented that it holds 100 percent of the interests evaluated herein; therefore, net reserves are equivalent to gross reserves for the purposes of this report.

Saudi Arabian Oil Company has represented that it holds interests in certain properties onshore and offshore the Kingdom of Saudi Arabia. Proved reserves have been estimated for 104 reservoirs in 32 fields in this report.

| Field | Reservoir | Field | Reservoir | Field | Reservoir |
|---|---|---|---|---|---|
| Abqaiq | Arab-C | Ghawar Hawiyah | Arab-D | Manifa | Arab-A |
| | Arab-D | | Jauf | | Post Arab-B |
| | Hanifa | | Khuff-B | | Arab-B |
| Abu Hadriya | Hadriya | | Khuff-C | | Arab-C/D |
| Abu Jifan | Arab-D | Ghawar Shedgum | Post Arab-D | | Hith Stringers |
| Abu Sa'fah | Arab-C | | Arab-D | | Manifa |
| | Arab-D | | Jauf | | Lower Ratawi |
| | Lower Ratawi | | Khuff-B | | Upper Ratawi |
| | Upper Ratawi | | Khuff-C | Mazalij | Arab-D |
| Berri | Arab-A | Ghawar Uthmaniyah | Arab-D | Midrikah | Unayzah-A |
| | Post Arab-B | | Khuff-B | Midyan | Wadi Waqb |
| | Arab-B | | Khuff-C | Nuayyim | Unayzah-A |
| | Arab-C | Ghazal | Unayzah | | Unayzah-B |
| | Arab-D | Harmaliyah | Arab-D | Nujayman | Unayzah-A |
| | Hadriya | Juraybi'at | Arab-A | Qatif | Arab-A |
| | Hanifa | | Post Arab-B | | Arab-B |
| | Upper Fadhili | | Arab-B | | Arab-C |
| Dammam | Arab-A/B | | Post Arab-C | | Arab-D |
| | Arab-C | | Arab-C | | Fadhili |
| | Arab-D | | Post Arab-D | Qirdi | Arab-D |
| Fadhili | Arab-D | | Arab-D | | Lower Fadhili |
| | Fadhili | Karan | Khuff-A | Safaniya | Ahmadi |
| Farhah | Arab-D | | Khuff-B/C | | Khafji |
| Ghawar Ain Dar | Post Arab-D | Khurais | Arab-D | | Mauddud |
| | Arab-D | | Hanifa | | Ratawi |
| | Lower Fadhili | | Lower Fadhili | | Safaniya |
| | Khuff-B | Khursaniyah | Arab-A | | Wara |
| Ghawar Fazran | Arab-D | | Arab-B | | Zubair |
| | Lower Fadhili | | Arab-C | Shaybah | Shu'aiba |
| | Khuff-B | | Arab-D | Tinat | Unayzah |
| Ghawar Haradh | Arab-D | | Hanifa | Zuluf | Khafji |
| | Khuff-A | | Khuff-B | | Mauddud |
| | Khuff-B | | Khuff-C | | Ratawi |
| | Khuff-C | | | | Safaniya |
| | Unayzah | | | | Shu'aiba |
| | | | | | Zubair |

No other reservoirs in these fields and no other fields and reservoirs held by Saudi Arabian Oil Company were evaluated in this report.

The interests evaluated in this report are held through contractual instruments and decrees as represented by Saudi Arabian Oil Company, including

Article 3 of the "Concession Agreement by and between The Government of the Kingdom of Saudi Arabia and The Saudi Arabian Oil Company." Article 3 grants rights of exploration and production of petroleum for an initial term of 40 years from January 1, 2018, and allows an extension of 20 years that is administrative in nature. The license grant also allows for another 40-year extension (which would result in a total term of 100 years) that is subject to negotiation near the time of initial expiration of the extended term. As such, for the purposes of this report, a 60-year total license term from January 1, 2018, which is the initial 40-year term plus the first 20-year extension, was presumed for proved reserves. During the course of this evaluation, we had the opportunity to review certain documents related to the license arrangements; however, we, as engineers, cannot express an opinion as to the accounting or legal aspects of those agreements. If any components of this license grant were to change, such changes could materially impact the results herein.

Estimates of reserves should be regarded only as estimates that may change as further production history and additional information become available. Not only are such estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Information used in this independent evaluation was obtained from Saudi Arabian Oil Company files and from reviews with Saudi Arabian Oil Company personnel. In the preparation of this report we have relied, without independent verification, upon such information furnished by Saudi Arabian Oil Company with respect to the property interests being evaluated, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of certain properties was completed for the purposes of this report.

This report was prepared in February 2020; therefore, certain events that may have occurred before the preparation of this report but after the "as-of" date of December 31, 2019, which might have affected the estimates presented herein, were not taken into account.

**Definition of Reserves**

Estimates of proved reserves presented in this report have been prepared in accordance with the PRMS approved in March 2007 and revised in June 2018 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, the Society of Exploration Geophysicists, the Society of Petrophysicists and Well Log Analysts, and the European Association of Geoscientists & Engineers. Only proved reserves have been evaluated for this report. The petroleum reserves are defined as follows:

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria: discovered, recoverable, commercial, and remaining (as of the evaluation's effective date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

> *Proved Reserves* are those quantities of petroleum that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term "reasonable certainty" is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the estimate.
>
> *Probable Reserves* are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are

used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

*Possible Reserves* are those additional reserves that analysis of geoscience and engineering data indicates are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high-estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Once projects satisfy commercial maturity, the associated quantities are classified as Reserves. These quantities may be allocated to the following subdivisions based on the funding and operational status of wells and associated facilities within the reservoir development plan:

*Developed Reserves* are quantities expected to be recovered from existing wells and facilities. Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

*Developed Producing Reserves* are expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.

*Developed Non-Producing Reserves* include shut-in and behind-pipe reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

*Undeveloped Reserves* are quantities expected to be recovered through future significant investments. Undeveloped Reserves are to be produced (1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g., when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

The extent to which probable and possible reserves ultimately may be recategorized as proved reserves is dependent upon future drilling, testing, and well performance. The degree of risk to be applied in evaluating probable and possible reserves is influenced by economic and technological factors as well as the time element. No probable or possible reserves have been evaluated for this report.

**Methodology and Procedures**

Estimates of reserves were prepared by the use of appropriate geologic, petroleum engineering, and evaluation principles and techniques that are in accordance with practices generally recognized by the petroleum industry and in accordance with definitions established by the PRMS. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

Based on the current stage of field development, production performance, the development plans provided by Saudi Arabian Oil Company, and analyses of areas offsetting existing wells with test or production data, reserves were categorized as proved.

Saudi Arabian Oil Company has represented that its senior management is committed to the development plans provided by Saudi Arabian Oil Company and that Saudi Arabian Oil Company has the financial capability to execute the development plans, including the drilling and completion of wells and the installation of equipment and facilities.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure maps were prepared to delineate each reservoir, and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material-balance and other engineering methods were used to estimate OOIP and/or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP and/or OGIP. These recovery factors were based on the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material balance and other engineering methods were used to estimate recovery factors based on an analysis of reservoir performance, including production rate, reservoir pressure, and reservoir fluid properties

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production as defined under the Definition of Reserves heading of this report or to the license limit, whichever occurs first.

In certain cases, reserves were estimated by incorporating elements of analogy with similar wells or reservoirs for which more complete data were available.

Future oil and gas producing rates estimated for this report were based on information provided by Saudi Arabian Oil Company. Saudi Arabian Oil Company has represented that the rates used for the production forecasts herein are within the capacity of the wells or reservoirs to produce.

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 only through September 30, 2019. Production data from wells drilled on the properties evaluated herein were provided only through September 30, 2019. Where applicable, estimated gross production through December 31, 2019, was deducted from gross ultimate recovery to arrive at gross reserves. This required that production be estimated for 3 months.

Oil and condensate reserves estimated herein are those to be recovered by normal field separation. LPG reserves include all liquids that result from plant processing, inclusive of ethane, butane, propane, and some heavier liquids. The estimates herein of oil, condensate, and LPG reserves are reported in millions of barrels ($10^6$bbl), where 1 barrel equals 42 United States gallons. For reporting purposes, condensate and LPG reserves have been estimated separately and are presented herein as a summed quantity.

Gas quantities estimated herein are expressed as marketable gas. Separator gas is defined as the gas produced from the wells after field separation but prior to gas processing and shrinkage from field handling or fuel use. Sales gas is defined as the separator gas after reduction for gas injection and shrinkage from field handling, fuel usage, gas processing, and line losses measured at the point of delivery. Marketable gas is defined as sales gas plus fuel. Gas reserves are reported as marketable gas in this report. The fuel gas quantities included in this report as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company equal 9,890 billion cubic feet ($10^9$ft$^3$). Gas reserves estimated herein are expressed at a temperature base of 60 degrees Fahrenheit (°F) and a pressure base of 14.7 pounds per square inch absolute (psia) and are reported in $10^9$ft$^3$.

Gas quantities estimated herein are identified by the type of reservoir from which the gas will be produced. Nonassociated gas is gas at initial reservoir conditions with no oil present in the reservoir. Associated gas is both gas-cap gas and solution gas. Gas-cap gas is gas at initial reservoir conditions and is in communication with an underlying oil zone. Solution gas is gas dissolved in oil at initial reservoir conditions. Gas quantities estimated herein include both associated and nonassociated gas.

For the purposes of this report, marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.

The estimates reported herein are limited to the expiration of the licenses for developing and producing the properties evaluated. As described herein and for the purposes of this report, the expiration for all licenses is December 31, 2077, which reflects 60 years from the license commencement.

## Primary Economic Assumptions

This report has been prepared using forecast prices, expenses, and costs provided by Saudi Arabian Oil Company in United States dollars (U.S.$). The following economic assumptions were used for estimating the reserves reported herein:

*Oil, Condensate, LPG, and Sales Gas Prices*

Saudi Arabian Oil Company provided all historical pricing information, and it has represented that the provided oil, condensate, and LPG (propane and butane) prices were the average monthly prices for each month, January through December 2019. The crude oil prices for the differing grades of crude, based on the December 2019 average prices, utilized for this report, expressed in United States dollars per barrel (U.S.$/bbl), were as follows:

| Crude Type | Price (U.S.$/bbl) |
|---|---|
| Arab Heavy | 60.69 |
| Arab Medium | 62.46 |
| Arab Light | 64.62 |
| Arab Extra Light | 66.88 |
| Arab Super Light | 71.94 |

The average condensate price was U.S.$67.16 per barrel. LPG prices were provided separately for propane and butane and were U.S.$37.93 per barrel and U.S.$39.22 per barrel, respectively. Ethane is also considered LPG in this report, but pricing was based on the gas price discussed below. For reference, the unweighted arithmetic average of the first-day-of-the-month Brent crude price U.S.$67.31 per barrel in December

2019. These average prices were utilized for the valuation herein, with all prices held constant for the life of the evaluation.

The gas sales prices used for this report were based on the existing gas sales and purchase agreement between the Kingdom of Saudi Arabia and the Saudi Arabian Oil Company, which specifies prices for sales gas based on gas type (associated or nonassociated), location of the source field, and the year of production. The gas sales prices, expressed in United States dollars per million Btu (U.S.$/$10^6$Btu), were as follows:

| | Gas Prices (U.S.$/$10^6$Btu) | | | |
|---|---|---|---|---|
| **Year** | **Associated Gas** | **Northern Area Nonassociated Gas** | **Southern Area Nonassociated Gas** | **Fadhili Increment Nonassociated Gas** |
| 2020 | 0.31 | 3.84 | 1.52 | 3.81 |

The sales gas prices were held constant for the lives of the fields after 2020.

Ethane is referenced as part of the LPG reserves estimated in this report, but the pricing was based on the same location and source criteria as gas prices. Ethane prices used in this report are shown below, expressed in United States dollars per barrel (U.S.$/bbl):

| | Ethane Prices (U.S.$/bbl) | | | |
|---|---|---|---|---|
| **Year** | **Associated Gas** | **Northern Area Nonassociated Gas** | **Southern Area Nonassociated Gas** | **Fadhili Increment Nonassociated Gas** |
| 2020 | 3.58 | 14.45 | 7.30 | 14.36 |

The ethane prices were held constant for the lives of the fields after 2020.

*Operating Expenses, Capital Costs, and Abandonment Costs*

Operating expenses, capital costs, and abandonment costs, based on information provided by Saudi Arabian Oil Company, were used in estimating future costs required to operate the properties. In certain cases, future expenditures, either higher or lower than current expenditures, may have been used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied. Abandonment costs, which are those costs associated with the removal of equipment, plugging of wells, and reclamation and restoration associated with the abandonment, were provided by Saudi Arabian Oil Company and were not adjusted for inflation.

*Royalty and Other Payments*

Production from the fields evaluated herein are subject to royalty due to the Kingdom of Saudi Arabia. The royalty is assessed, before income taxes, on oil and condensate based on a tiered system of marginal rates (increasing royalty percentages applied to the increment above the previous tier) relative to the Brent crude 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 | 15 |
| Greater Than U.S.$70.00/bbl but Less Than U.S.$100.00/bbl | 45 |
| Greater Than or Equal to U.S.$100.00/bbl | 80 |

Note: Royalty over 15 percent is applied to the incremental revenue generated above the previous tier price. Condensate is not subject to royalty through 2032.

Sales gas and ethane are not subject to royalty; however, propane, butane, and other LPG are subject to a fixed royalty of 12.5 percent applied to U.S.$0.035 per $10^6$Btu.

For the Abu Sa'fah field, there is an agreement to pay another party 50 percent of the future net revenue before taxes.

*Income Tax*

Future net revenue from the fields is subject to an income tax imposed by the Kingdom of Saudi Arabia. The statutory rate for oil and associated gas revenue is 50 percent, and the statutory rate is 20 percent for nonassociated gas and plant liquid (from processed associated and nonassociated gas) revenue. Expenses are fully deductible, but capital expenditures are depreciated using a 20-percent annual rate. Tax losses can be carried forward subject to an application limit of 25 percent of annual profit in a given year.

## Summary of Conclusions

Saudi Arabian Oil Company has represented that it holds interests in certain properties onshore and offshore the Kingdom of Saudi Arabia evaluated herein. Saudi Arabian Oil Company has represented that its estimates of the proved reserves, as of December 31, 2019, attributable to Saudi Arabian Oil Company's interests in the properties evaluated in this report are summarized as follows, expressed in millions of barrels ($10^6$bbl), billions of cubic feet ($10^9$ft$^3$), and millions of barrels of oil equivalent ($10^6$boe):

**Estimated by Saudi Arabian Oil Company**
**Proved Reserves Summary**

| | Oil, Condensate, and LPG ($10^6$bbl) | Marketable Gas ($10^9$ft$^3$) | Oil Equivalent ($10^6$boe) |
|---|---|---|---|
| Total Proved | | | |
| Gross | 193,836 | 111,758 | 212,462 |
| Net | 193,836 | 111,758 | 212,462 |

Note: Marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 boe.

Saudi Arabian Oil Company has represented that its estimates of proved reserves have been estimated in accordance with the reserves definitions of the PRMS. Based on a procedural review conducted by DeGolyer and MacNaughton, Saudi Arabian Oil Company has conducted its internal estimates of reserves in accordance with the PRMS and by the use of recognized geologic and engineering methods that are generally accepted by the petroleum industry.

DeGolyer and MacNaughton's independent estimate of the proved reserves, as of December 31, 2019, attributable to Saudi Arabian Oil Company's interests in the properties evaluated in this report are summarized as follows, expressed in millions of barrels ($10^6$bbl), billions of cubic feet ($10^9$ft$^3$), and millions of barrels of oil equivalent ($10^6$boe):

| | Estimated by DeGolyer and MacNaughton Proved Reserves Summary | | |
|---|---|---|---|
| | **Oil, Condensate, and LPG ($10^6$bbl)** | **Marketable Gas ($10^9$ft$^3$)** | **Oil Equivalent ($10^6$boe)** |
| Total Proved | | | |
| Gross | 196,234 | 107,728 | 214,189 |
| Net | 196,234 | 107,728 | 214,189 |

Notes:
1. Marketable gas reserves estimated herein were converted to oil equivalent using an energy equivalent factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent.
2. The fuel gas quantities included in this report as a portion of marketable gas reserves attributable to Saudi Arabian Oil Company equal 9,890 $10^9$ft$^3$.
3. The oil, condensate, and LPG reserves in this table include 167,169 $10^6$ bbl of oil, 4,485 $10^6$bbl of condensate, and 24,580 $10^6$bbl of LPG.

In comparing the detailed proved reserves estimates prepared by DeGolyer and MacNaughton and those prepared by Saudi Arabian Oil Company for the properties evaluated, differences have been found, both positive and negative, in reserves estimates for individual properties that result in an aggregate difference of approximately 1 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, 2019.

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

DeGOLYER and MacNAUGHTON
Texas Registered Engineering Firm F-716

STATE OF TEXAS
REGNALD A. BOLES
65092
LICENSED
PROFESSIONAL ENGINEER

Regnald A. Boles

Regnald A. Boles, P.E.
Senior Vice President
DeGolyer and MacNaughton

# CERTIFICATE of QUALIFICATION

I, Regnald A. Boles, Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am a Senior Vice President with DeGolyer and MacNaughton, which firm did prepare the report of third party addressed to Saudi Arabian Oil Company dated February 24, 2020, and that I, as Senior Vice President, was responsible for the preparation of this report of third party.

2. That I attended Texas A&M University, and that I graduated with a Bachelor of Science degree in Petroleum Engineering in the year 1983; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the Society of Petroleum Engineers; and that I have approximately 36 years of experience in oil and gas reservoir studies and reserves evaluations.

SIGNED: February 24, 2020

Regnald A. Boles, P.E.
Senior Vice President
DeGolyer and MacNaughton

## INDEX TO FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORTS

# SAUDI ARABIAN OIL COMPANY

**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2019**

*Independent auditor's report to the shareholders 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 the "Group") as at December 31, 2019, 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**

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended December 31, 2019;
- the consolidated statement of comprehensive income for the year ended December 31, 2019;
- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of changes in equity for the year ended December 31, 2019;
- the consolidated statement of cash flows for the year ended December 31, 2019; 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, 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 the Group 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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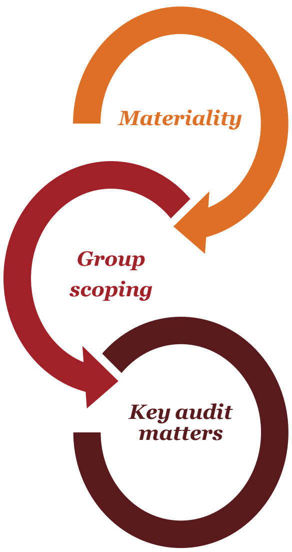
# *Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

## *Our audit approach*

**Overview**




- We determined overall Group materiality taking into account the profit-oriented nature of the Group.
- Based on income before income taxes of SAR 666.7 billion, we determined our overall Group materiality at SAR 26.3 billion.
- Our quantitative threshold for reporting misstatements to those charged with governance was set at SAR 2.0 billion.

Based on their size, complexity and risk:

- 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 significant to the Group audit; and
- We also determined a number of other components to be in scope for the Group audit, in respect of which appropriate audit procedures were performed.

Our key audit matters comprise the following:

- Carrying values of property, plant and equipment and investments in joint ventures and associates; and
- Adoption of IFRS 16, Leases.

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 Board of Directors made subjective judgments; 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 our application of materiality. An audit is designed to obtain reasonable assurance 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 judgment, 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.

*Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

| | |
|---|---|
| ***Overall Group materiality*** | SAR 26.3 billion (2018: SAR 37.5 billion) |
| ***How we determined it*** | Approximately 4% (2018: 5%) of income before income taxes |
| ***Rationale for the materiality benchmark applied*** | • Income before income taxes is an important benchmark for the Group's stakeholders and is generally accepted benchmark for profit-oriented groups.<br>• We reduced our benchmark percentage to align with the change in the Group's profile given the initial public offering in the current year. |

We agreed with those charged with governance that we would report to them misstatements identified during our audit above SAR 2.0 billion.

**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 the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group'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 most 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 over systems and processes related to the Company's financial information supplemented by tests of detail. Certain audit procedures were carried out centrally by the Group engagement team assisted by our internal accounting, 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 workings and disclosures.

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 on the respective components' financial information was performed under our instructions. 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 full scope audits at those locations. We also requested other teams to perform audit 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 a recent business combination. These components were located in the Kingdom of Saudi Arabia, Guernsey, Bermuda and the Netherlands.

The Group engagement team's involvement in the audit work performed by component teams considered the relative significance and complexity of the individual component. This included allocating overall materiality to the different components, sending formal instructions, obtaining regular updates on progress and results of procedures as well as review of deliverables and the underlying work papers.

**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.

## *Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| ***Carrying values of property, plant and equipment and investments in joint ventures and associates*** | |
| Management performs a formal assessment at each reporting period-end to consider whether there is any indication that items of property, plant and equipment or investments in joint ventures and associates may be impaired.<br><br>When such triggers are identified, valuation models are prepared to determine recoverable amounts for the relevant Cash Generating Units ("CGUs"). Based on these models, management ensures that assets are not carried at more than their recoverable amounts.<br><br>A number of valuation models were prepared by management as part of their 2019 impairment considerations. These represented value-in-use calculations based on discounted cash flows. The key estimates and assumptions underlying these models included:<br><br>• Forecast prices;<br>• Expected product volumes;<br>• Future operating and development costs;<br>• Terminal values; and<br>• Discount rates.<br><br>The recoverable amounts computed using valuation models, in all cases, were in excess of the carrying values of the CGUs. As a result, no impairment charges were recorded in the consolidated financial statements.<br><br>We considered this to be a key audit matter given the judgment involved in identifying impairment triggers and the complexity inherent in valuation modelling.<br><br>*Refer to Note 2(d), Note 2(h), Note 5 and Note 7 to the consolidated financial statements for further information.* | We assessed the reasonableness of management's considerations relating to impairment triggers considering our knowledge of internal and external factors.<br><br>With input from our internal valuation experts, we performed the following procedures on management's valuation models, as appropriate:<br><br>• Considered the appropriateness of the assets and liabilities allocated to CGUs;<br>• Compared a sample of forecast prices to market data points;<br>• Considered the consistency of certain unobservable inputs such as expected product volumes and future operating and development costs with approved business plans;<br>• Evaluated the reasonableness of approved business plans by comparison to historical results;<br>• Assessed the reasonableness of the approach and inputs used to determine terminal values;<br>• Evaluated the reasonableness of discount rates by cross-checking the underlying assumptions against observable market data; and<br>• Sensitized key assumptions to assess the potential impact on recoverable amounts of a range of possible outcomes.<br><br>We also considered the appropriateness of the related accounting policies and disclosures in the consolidated financial statements. |

# *Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| ***Adoption of IFRS 16, Leases*** | |
| The Group adopted IFRS 16, Leases from the mandatory adoption date of January 1, 2019. This standard superseded the requirements of IAS 17, Leases. IFRS 16 introduced a single lease accounting model, requiring lessees to recognise, in most cases, a right-of-use asset and a lease liability.<br><br>As part of the adoption exercise, management:<br><br>• Performed an extensive exercise to identify and assess significant lease arrangements. This was inherently complex given the large number of contracts in place and the diverse nature of the underlying terms and conditions;<br>• Implemented system changes and set up new processes and controls to deal with the new lease accounting methodology; and<br>• Determined the appropriate transitional adjustments and the disclosures required to be included in the consolidated financial statements.<br><br>The Group adopted IFRS 16 using the modified retrospective approach and did not restate comparative figures. A number of practical expedients were applied and there was no impact on opening retained earnings. Right-of-use assets and corresponding lease liabilities amounting to SAR 26.1 billion were recognised as at January 1, 2019 for arrangements previously classified as operating leases.<br><br>We considered this to be a key audit matter as: (a) contracts within the scope of IFRS 16 may not be appropriately identified or included in the transitional impact calculations; and (b) determination of the right-of-use assets and the corresponding lease liabilities involves complex computations and significant management judgment relating to the lease terms.<br><br>*Refer to Note 2(c)(i), Note 2(i), Note 5 and Note 19 to the consolidated financial statements for further information.* | We performed the following procedures:<br><br>• Gained an understanding of management's implementation plan and the processes and controls introduced as part of the IFRS 16 adoption;<br>• Tested completeness of management's lease register by considering the reconciliation of the lease liabilities recognised as at January 1, 2019 to the operating lease commitments as at December 31, 2018, as disclosed in the consolidated financial statements;<br>• Obtained the detailed lease schedules underlying the transitional adjustments recorded as at January 1, 2019 and the lease balances recognised as at December 31, 2019 and tested their mathematical accuracy; and<br>• For samples selected from both the above-mentioned schedules, tested the following, as appropriate:<br><br>(a) Management's assessment of whether or not the contracts contained leases;<br>(b) Appropriateness of the practical expedients applied;<br>(c) Calculations of the right-to-use assets and the corresponding lease liabilities as at January 1, 2019 and December 31, 2019 and the movements during the year;<br>(d) Appropriateness of the key judgments underlying the determination of lease terms; and<br>(e) Reasonableness of the discount rates used with reference to incremental borrowing rates.<br><br>We also considered the appropriateness of the accounting policies and disclosures included in the consolidated financial statements in relation to IFRS 16. |

# Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)

## 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.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Bylaws, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing 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 the Board of Directors 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 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.

## *Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

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 the Group'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 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.

# *Independent auditor's report to the shareholders of Saudi Arabian Oil Company (continued)*

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.

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**PricewaterhouseCoopers**

Bader I. Benmohareb
License No. 471

March 12, 2020

All amounts in millions of Saudi Riyals unless otherwise stated

# Consolidated statement of income

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | **2019** | 2018 | **2019** | 2018 |
| Revenue | 23 | **1,105,696** | 1,194,376 | **294,852** | 318,500 |
| Other income related to sales | | **131,089** | 152,641 | **34,957** | 40,704 |
| **Revenue and other income related to sales** | | **1,236,785** | 1,347,017 | **329,809** | 359,204 |
| Royalties and other taxes | | **(182,141)** | (208,505) | **(48,571)** | (55,601) |
| Purchases | 29 | **(225,170)** | (201,176) | **(60,045)** | (53,647) |
| Producing and manufacturing | | **(58,249)** | (56,202) | **(15,533)** | (14,987) |
| Selling, administrative and general | | **(36,647)** | (31,250) | **(9,773)** | (8,333) |
| Exploration | | **(7,291)** | (7,928) | **(1,944)** | (2,114) |
| Research and development | | **(2,150)** | (2,217) | **(573)** | (591) |
| Depreciation and amortization | 5,6 | **(50,266)** | (41,334) | **(13,404)** | (11,023) |
| **Operating costs** | | **(561,914)** | (548,612) | **(149,843)** | (146,296) |
| **Operating income** | | **674,871** | 798,405 | **179,966** | 212,908 |
| Share of results of joint ventures and associates | 7 | **(9,455)** | (1,415) | **(2,521)** | (377) |
| Finance and other income | 24 | **7,351** | 3,865 | **1,960** | 1,030 |
| Finance costs | 19 | **(6,026)** | (2,959) | **(1,607)** | (789) |
| **Income before income taxes** | | **666,741** | 797,896 | **177,798** | 212,772 |
| **Income taxes** | 8 | **(336,048)** | (381,378) | **(89,613)** | (101,701) |
| **Net income** | | **330,693** | 416,518 | **88,185** | 111,071 |
| | | | | | |
| **Net income (loss) attributable to** | | | | | |
| Shareholders' equity | | **330,816** | 416,196 | **88,218** | 110,985 |
| Non-controlling interests | | **(123)** | 322 | **(33)** | 86 |
| | | **330,693** | 416,518 | **88,185** | 111,071 |
| | | | | | |
| **Earnings per share (basic and diluted)** | 35 | **1.65** | 2.08 | **0.44** | 0.55 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

**H.E. Yasir O. Al-Rumayyan**
Chairman of the Board

**Amin H. Nasser**
President & Chief Executive Officer

**Khalid H. Al-Dabbagh**
Senior Vice President,
Finance, Strategy & Development

All amounts in millions of Saudi Riyals unless otherwise stated

# Consolidated statement of comprehensive income

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | **2019** | 2018 | **2019** | 2018 |
| **Net income** | | **330,693** | 416,518 | **88,185** | 111,071 |
| **Other comprehensive income (loss), net of tax** | 18 | | | | |
| **Items that will not be reclassified to net income** | | | | | |
| Remeasurement of post-employment benefit obligations | | **2,628** | 6,920 | **701** | 1,845 |
| Change in post-employment benefit deferred tax due to income tax rate change | | **(464)** | (119) | **(123)** | (32) |
| Share of post-employment benefit obligations remeasurement from joint ventures and associates | | **2** | – | **–** | – |
| Change in equity investment deferred tax due to income tax rate change | | **180** | – | **48** | – |
| Changes in fair value of equity investments classified as fair value through other comprehensive income | | **187** | (811) | **50** | (216) |
| Share-based payment reserve | | **31** | – | **8** | – |
| **Items that may be reclassified subsequently to net income** | | | | | |
| Cash flow hedges and other | | **(353)** | 36 | **(94)** | 10 |
| Changes in fair value of debt securities classified as fair value through other comprehensive income | | **59** | (762) | **16** | (203) |
| Share of other comprehensive loss of joint ventures and associates | | **(487)** | (283) | **(130)** | (76) |
| Currency translation differences | | **(1,027)** | (1,110) | **(274)** | (296) |
| | | **756** | 3,871 | **202** | 1,032 |
| **Total comprehensive income** | | **331,449** | 420,389 | **88,387** | 112,103 |
| **Total comprehensive income (loss) attributable to** | | | | | |
| Shareholders' equity | | **331,896** | 420,524 | **88,506** | 112,139 |
| Non-controlling interests | | **(447)** | (135) | **(119)** | (36) |
| | | **331,449** | 420,389 | **88,387** | 112,103 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

**H.E. Yasir O. Al-Rumayyan**
Chairman of the Board

**Amin H. Nasser**
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Senior Vice President,
Finance, Strategy & Development

All amounts in millions of Saudi Riyals unless otherwise stated

# Consolidated balance sheet

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | At December 31 | | At December 31 | |
| | Note | **2019** | 2018 | **2019** | 2018 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | **982,014** | 873,827 | **261,870** | 233,021 |
| Intangible assets | 6 | **30,122** | 26,896 | **8,033** | 7,172 |
| Investments in joint ventures and associates | 7 | **19,738** | 22,579 | **5,263** | 6,021 |
| Deferred income tax assets | 8 | **12,728** | 9,866 | **3,394** | 2,631 |
| Other assets and receivables | 9 | **21,372** | 13,127 | **5,699** | 3,501 |
| Investments in securities | 10 | **19,956** | 17,214 | **5,322** | 4,590 |
| | | **1,085,930** | 963,509 | **289,581** | 256,936 |
| **Current assets** | | | | | |
| Inventories | 11 | **42,607** | 43,580 | **11,362** | 11,621 |
| Trade receivables | 12 | **93,526** | 93,818 | **24,940** | 25,018 |
| Due from the Government | 13 | **36,781** | 48,864 | **9,808** | 13,030 |
| Other assets and receivables | 9 | **12,109** | 13,775 | **3,230** | 3,673 |
| Short-term investments | 14 | **45,467** | 194 | **12,125** | 52 |
| Cash and cash equivalents | 15 | **177,706** | 183,152 | **47,388** | 48,841 |
| | | **408,196** | 383,383 | **108,853** | 102,235 |
| **Total assets** | | **1,494,126** | 1,346,892 | **398,434** | 359,171 |
| **Equity and liabilities** | | | | | |
| **Shareholders' equity** | | | | | |
| Share capital | | **60,000** | 60,000 | **16,000** | 16,000 |
| Additional paid-in capital | | **26,981** | 26,981 | **7,195** | 7,195 |
| Treasury shares | 16 | **(3,750)** | – | **(1,000)** | – |
| Retained earnings: | | | | | |
| Unappropriated | | **943,758** | 920,625 | **251,669** | 245,500 |
| Appropriated | | **6,000** | 6,000 | **1,600** | 1,600 |
| Other reserves | 18 | **2,076** | 3,176 | **553** | 847 |
| | | **1,035,065** | 1,016,782 | **276,017** | 271,142 |
| **Non-controlling interests** | | **11,170** | 11,653 | **2,979** | 3,107 |
| | | **1,046,235** | 1,028,435 | **278,996** | 274,249 |
| **Non-current liabilities** | | | | | |
| Borrowings | 19 | **150,690** | 71,329 | **40,184** | 19,021 |
| Deferred income tax liabilities | 8 | **44,471** | 23,877 | **11,859** | 6,367 |
| Post-employment benefit obligations | 20 | **21,174** | 23,209 | **5,646** | 6,189 |
| Provisions | 21 | **15,985** | 15,606 | **4,263** | 4,162 |
| | | **232,320** | 134,021 | **61,952** | 35,739 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **78,231** | 72,286 | **20,862** | 19,276 |
| Obligations to the Government: | | | | | |
| Income taxes | 8 | **62,243** | 70,299 | **16,598** | 18,746 |
| Dividend payable | 34 | **35,475** | – | **9,460** | – |
| Royalties | | **14,727** | 11,862 | **3,927** | 3,164 |
| Borrowings | 19 | **24,895** | 29,989 | **6,639** | 7,997 |
| | | **215,571** | 184,436 | **57,486** | 49,183 |
| | | **447,891** | 318,457 | **119,438** | 84,922 |
| **Total equity and liabilities** | | **1,494,126** | 1,346,892 | **398,434** | 359,171 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

**H.E. Yasir O. Al-Rumayyan**
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All amounts in millions of Saudi Riyals unless otherwise stated

# Consolidated statement of changes in equity

| | SAR | | | | | | | | USD* |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | | | | |
| | | | | Retained earnings | | | | | |
| | Share capital | Additional paid-in capital | Treasury shares | Unappropriated | Appropriated[1] | Other reserves (Note 18) | Non-controlling interests | Total | Total |
| **Balance at January 1, 2018** | 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 |
| Transfer of post-employment benefit obligations remeasurement | – | – | – | 6,822 | – | (6,822) | – | – | – |
| Dividends (Note 34) | – | – | – | (217,500) | – | – | – | (217,500) | (58,000) |
| Change in control of an affiliate | – | – | – | – | – | – | 134 | 134 | 36 |
| Dividends 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** |
| Net income (loss) | **–** | **–** | **–** | **330,816** | **–** | **–** | **(123)** | **330,693** | **88,185** |
| Other comprehensive income (loss) | **–** | **–** | **–** | **–** | **–** | **1,080** | **(324)** | **756** | **202** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **330,816** | **–** | **1,080** | **(447)** | **331,449** | **88,387** |
| Acquisition of treasury shares (Note 16) | **–** | **–** | **(3,750)** | **–** | **–** | **–** | **–** | **(3,750)** | **(1,000)** |
| Transfer of post-employment benefit obligations remeasurement | **–** | **–** | **–** | **2,178** | **–** | **(2,178)** | **–** | **–** | **–** |
| Transfer of share of post-employment benefit obligation remeasurement from joint ventures and associates | **–** | **–** | **–** | **2** | **–** | **(2)** | **–** | **–** | **–** |
| Dividends (Note 34) | **–** | **–** | **–** | **(309,863)** | **–** | **–** | **–** | **(309,863)** | **(82,630)** |
| Dividends to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(36)** | **(36)** | **(10)** |
| **Balance at December 31, 2019** | **60,000** | **26,981** | **(3,750)** | **943,758** | **6,000** | **2,076** | **11,170** | **1,046,235** | **278,996** |

1. Appropriated retained earnings represent a legal reserve as originally established under the 1988 Articles of the Saudi Arabian Oil Company which is not available for distribution (Note 1).

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

**H.E. Yasir O. Al-Rumayyan**
Chairman of the Board

**Amin H. Nasser**
President & Chief Executive Officer

**Khalid H. Al-Dabbagh**
Senior Vice President,
Finance, Strategy & Development

All amounts in millions of Saudi Riyals unless otherwise stated

# Consolidated statement of cash flows

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | **2019** | 2018 | **2019** | 2018 |
| **Income before income taxes** | | **666,741** | 797,896 | **177,798** | 212,772 |
| **Adjustments to reconcile income before income taxes to net cash provided by operating activities** | | | | | |
| Depreciation and amortization | 5,6 | **50,266** | 41,334 | **13,404** | 11,023 |
| Exploration and evaluation costs written off | 6 | **3,217** | 2,951 | **858** | 787 |
| Gain on remeasurement of existing interest in equity investments | 24,33 | **(1,278)** | (870) | **(341)** | (232) |
| Share of results of joint ventures and associates | 7 | **9,455** | 1,415 | **2,521** | 377 |
| Finance income | 24 | **(5,534)** | (2,840) | **(1,476)** | (757) |
| Finance costs | 19 | **6,026** | 2,959 | **1,607** | 789 |
| Dividends from investments in securities | 24 | **(509)** | (143) | **(136)** | (38) |
| Change in fair value of investments through profit or loss | | **(620)** | (594) | **(165)** | (158) |
| Change in joint ventures and associates inventory profit elimination | 7 | **240** | 103 | **64** | 27 |
| Other | | **1,257** | 1,417 | **335** | 377 |
| **Change in working capital** | | | | | |
| Inventories | | **1,869** | (6,455) | **499** | (1,721) |
| Trade receivables | | **727** | (5,696) | **194** | (1,519) |
| Due from the Government | | **12,083** | (7,968) | **3,222** | (2,124) |
| Other assets and receivables | | **3,268** | (7,335) | **872** | (1,956) |
| Trade and other payables | | **3,430** | 5,343 | **915** | 1,425 |
| Royalties payable | | **2,865** | (8,548) | **763** | (2,279) |
| **Other changes** | | | | | |
| Other assets and receivables | | **(9,951)** | (1,117) | **(2,654)** | (298) |
| Provisions | | **330** | (240) | **88** | (65) |
| Post-employment benefit obligations | | **1,119** | (2,606) | **298** | (695) |
| Settlement of income and other taxes | 8 | **(328,472)** | (355,305) | **(87,592)** | (94,748) |
| **Net cash provided by operating activities** | | **416,529** | 453,701 | **111,074** | 120,987 |
| Capital expenditures | 4 | **(122,882)** | (131,766) | **(32,769)** | (35,138) |
| Acquisition of affiliates, net of cash acquired | 7, 33 | **(13,628)** | (8,571) | **(3,634)** | (2,285) |
| Distributions from joint ventures and associates | 7 | **778** | 1,073 | **207** | 286 |
| Additional investments in joint ventures and associates | 7, 25 | **(341)** | (401) | **(91)** | (106) |
| Dividends from investments in securities | 24 | **509** | 143 | **136** | 38 |
| Interest received | | **4,561** | 2,942 | **1,216** | 784 |
| Net investments in securities | | **(868)** | (615) | **(231)** | (164) |
| Net (purchases) maturities of short-term investments | | **(45,273)** | 5,990 | **(12,073)** | 1,597 |
| **Net cash used in investing activities** | | **(177,144)** | (131,205) | **(47,239)** | (34,988) |
| Dividends | 31,34 | **(274,388)** | (217,500) | **(73,170)** | (58,000) |
| Dividends paid to non-controlling interests | | **(36)** | (902) | **(10)** | (240) |
| Interest paid | | **(5,715)** | (2,748) | **(1,524)** | (733) |
| Acquisition of treasury shares | 16 | **(3,750)** | – | **(1,000)** | – |
| Proceeds from borrowings | | **51,960** | 11,660 | **13,856** | 3,109 |
| Repayments of borrowings | | **(12,902)** | (11,096) | **(3,440)** | (2,959) |
| **Net cash used in financing activities** | | **(244,831)** | (220,586) | **(65,288)** | (58,823) |
| **Net (decrease) increase in cash and cash equivalents** | | **(5,446)** | 101,910 | **(1,453)** | 27,176 |
| Cash and cash equivalents at beginning of the year | | **183,152** | 81,242 | **48,841** | 21,665 |
| **Cash and cash equivalents at end of the year** | | **177,706** | 183,152 | **47,388** | 48,841 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

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Senior Vice President,
Finance, Strategy & Development

# Notes to the consolidated financial statements

## 1. General information

The Saudi Arabian Oil Company (the "Company"), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the "Kingdom"), is engaged in prospecting, exploring, drilling and extracting hydrocarbon substances ("Upstream") and processing, manufacturing, refining and marketing these hydrocarbon substances ("Downstream"). The Company was formed on November 13, 1988 by Royal Decree No. M/8; however, its history dates back to May 29, 1933 when the Saudi Arabian Government (the "Government") granted a concession to the Company's predecessor the right to, among other things, explore the Kingdom for hydrocarbons.

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. 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 codifies the Government'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 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 ("LPG") 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 does not satisfy certain conditions commensurate with its then 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.

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 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 11, 2019, the Company completed its Initial Public Offering ("IPO") and its ordinary shares were listed on the Saudi Stock Exchange ("Tadawul"). In connection with the IPO, the Government sold an aggregate of 3.45 billion ordinary shares, or 1.73% of the Company's share capital. In addition, concurrent with the IPO, the Company acquired 117.2 million of its ordinary shares from the Government for a cash payment of SAR 3,750, which are being classified as treasury shares (Note 16). These shares will be used by the Company for its incentive and employee share purchase plans (Note 17).

The consolidated financial statements of the Company and its subsidiaries (together "Saudi Aramco") were approved by the Board of Directors on March 12, 2020.

## 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 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

On September 17, 2019, the following significant changes to the fiscal regime under which the Company operates were announced:

(i) The Company and the Government executed an amendment to the Concession Agreement effective January 1, 2020, which changed the effective royalty rate applied to crude oil production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 15% (from 20%) applied to prices up to $70 per barrel, increasing to 45% (from 40%) applied to prices above $70 per barrel and 80% (from 50%) applied to prices above $100 per barrel.

(ii) Effective January 1, 2020, LPGs and certain other products were added to the price equalization mechanism to compensate the Company for revenue directly foregone as a result of the Company's compliance with the Government mandates related to domestic sales of those products by the Company.

(iii) Effective January 1, 2020, the tax rate applicable to the Company's Downstream activities was reduced from the 50% rate applicable to qualified domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law"). The new rate is conditioned on the Company separating its Downstream activities under the control of one or more separate wholly owned subsidiaries before December 31, 2024, otherwise the Company's Downstream activities will be retroactively taxed at 50%. The Company expects to transfer all its Downstream activities into a separate legal entity or entities within the period specified (Note 8).

### (b) Significant accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to exercise judgment in 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, management also applies judgment when undertaking the estimation procedures 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 interests in subsidiaries, joint arrangements and associates, recoverability of asset carrying amounts, determining the lease term, 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 pronouncement, as endorsed in the Kingdom, effective for annual periods beginning on or after January 1, 2019:

**IFRS 16, Leases**

IFRS 16, Leases, as issued by the IASB in January 2016, replaced IAS 17, Leases, and relates to the recognition, measurement, presentation and disclosure of leases. Saudi Aramco adopted IFRS 16, using the modified retrospective approach, from the mandatory adoption date of January 1, 2019.

Under IAS 17, leased assets were classified as either finance or operating leases. Payments made under operating leases were charged to net income on a straight-line basis over the period of the lease. On adoption of IFRS 16, right-of-use assets and lease liabilities of SAR 26,051 were recognized for previously classified operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. For leases previously classified as finance leases, Saudi Aramco continued to recognize the same carrying amount of the lease asset and lease liability as immediately before transition. There was no impact of adoption of IFRS 16 on the opening retained earnings at January 1, 2019.

In accordance with the transition provisions in IFRS 16, comparative figures have not been restated and the following practical expedients were applied on transition: a) the use of a single discount rate for a portfolio of leases with reasonably similar characteristics; b) reliance on previous assessments on whether leases are onerous; c) the accounting for operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases; d) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; e) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease and f) not to reassess whether a contract is, or contains a lease at the date of initial application.

All amounts in millions of Saudi Riyals unless otherwise stated

## 2. Summary of significant accounting policies, judgments and estimates continued

The table below presents the reconciliation between operating lease commitments disclosed in the consolidated financial statements for the year ended December 31, 2018 and the lease liability recognized at January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.1%.

| | January 1, 2019 |
|---|---|
| Operating lease commitments disclosed at December 31, 2018 | **35,565** |
| | |
| Discounted using Saudi Aramco's incremental borrowing rate at January 1, 2019 | **27,814** |
| Add: finance lease liabilities recognized at December 31, 2018 | **13,058** |
| (Less): short-term leases recognized on a straight-line basis | **(1,647)** |
| (Less): low value leases recognized on a straight-line basis as expense | **(116)** |
| Lease liability recognized at January 1, 2019 | **39,109** |
| | |
| Current lease liabilities | **6,439** |
| Non-current lease liabilities | **32,670** |
| | **39,109** |

For further information on leases, refer to Notes 2(i), 5 and 19.

(ii) There are no standards, amendments and interpretations that are not yet effective and have not been early adopted by Saudi Aramco that are expected to have a material impact in the current or future reporting periods or on foreseeable future transactions.

(iii) In July 2017, the United Kingdom Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates. In September 2019, the IASB amended IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, and IFRS 9, Financial Instruments, which modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the Interbank Offered Rate ("IBOR") reform. In addition, the amendments require companies to provide additional information about their hedging relationships which are directly affected by these uncertainties. The amendments are effective beginning on January 1, 2020. Additionally, the IASB is considering the potential consequences on financial reporting of replacing an existing benchmark with an alternative. IBOR reforms and expectation of cessation of LIBOR will impact Saudi Aramco's current risk management strategy and possibly accounting for certain financial instruments used for hedging. Saudi Aramco has the following hedging instruments (Note 3(d)) which are exposed to the impact of LIBOR:

- Financial Assets: SAR 13
- Financial Liabilities: SAR 338

Saudi Aramco uses financial instruments as part of its risk management strategy to manage exposures arising from variation of interest rates that could affect net income or other comprehensive income and applies hedge accounting to these instruments. Saudi Aramco has certain borrowings where the reference rate is linked to the LIBOR. Saudi Aramco is assessing the impact to ensure a smooth transition from LIBOR to new benchmark rates.

### (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. Acquisition related costs are expensed as incurred. The cost of the acquisition of a subsidiary is measured as the fair value of the assets transferred, liabilities incurred to the former owners of the acquired business, equity interests issued by the group, the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. 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 and the amount of any non-controlling interest in the acquired entity over the fair value of the acquired 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

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 remeasured 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 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.

*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 non-wholly owned 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. Refer to Notes 7, 36, and 37.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (e) Intangible assets

Intangible assets other than exploration and evaluation costs (Note 2(f)) consist primarily of brands and trademarks, franchise/customer relationships and computer software. 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 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 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 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 written off to exploration in the Consolidated Statement of Income.

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 exploration in the Consolidated Statement of 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 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(u)).

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.

All amounts in millions of Saudi Riyals unless otherwise stated

## 2. Summary of significant accounting policies, judgments and estimates continued

The following table sets forth estimated useful lives or, the lease term, if shorter, for right-of-use assets (Note 2(i)), 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 and Natural Gas Liquids ("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 recognized in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

### (h) Impairment of non-financial assets

Saudi Aramco assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either post-tax discounted cash flow models or available data from binding 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, refining or petrochemical 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 and chemical prices, expected production volumes, future operating and development costs, refining and petrochemical 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (i) Leases

Saudi Aramco's portfolio of leased assets mainly comprises drilling rigs, marine vessels, industrial facilities, equipment, aircraft and vehicles. The determination of whether the contract is, or contains, a lease is based on the substance of the contract at the inception of the lease. 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.

Saudi Aramco recognizes right-of-use assets and lease liabilities at the lease commencement date. Right-of-use assets are initially measured at cost, which comprises lease liabilities at initial measurement, any initial direct costs incurred, any lease payments made at or before the commencement date, and restoration costs less any lease incentives received. Subsequent to initial recognition the right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset by the end of the lease term or if the cost of the asset reflects the exercise of the purchase option, in which case right of use assets are depreciated over the useful life of the underlying asset. Depreciation expense is recorded in the Consolidated Statement of Income. Right-of-use assets are included under property, plant and equipment (Note 5).

Lease liabilities are initially measured at the present value of lease payments. Lease payments include fixed lease payments, variable lease payments that depend on an index or rate, amounts payable for guaranteed residual values and payments to be made under extension or purchase or termination options, where applicable. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Subsequent to initial recognition, the lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted for remeasurement to reflect any reassessments or lease modifications. Lease liabilities are included under borrowings (Note 19). Lease payments are allocated between the liability and finance costs. Finance costs are recorded as an expense in the Consolidated Statement of Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Saudi Aramco has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments under short-term and low-value leases are recorded as an expense in the Consolidated Statement of Income on a straight-line basis over the lease term.

*Significant accounting judgments and estimates*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to not be terminated or to be extended. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the lessee.

#### Accounting policies applied until December 31, 2018

Agreements under which Saudi Aramco made payments to third parties in return for the right to use an asset for a period of time were accounted for as leases. Leases that transferred substantially all the risks and rewards of ownership to Saudi Aramco were recorded at commencement as finance leases. Such leases were 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 was recorded in net income using the effective interest method over the term of the lease. Contingent rentals were recognized as an expense in the periods in which they were incurred. All other leases were recorded as operating leases and the associated costs were recorded in net income on a straight-line basis over the period of the lease.

Where Saudi Aramco was the lessor in a finance lease, the present value of the lease payments was recognized as a receivable. The interest element of the lease receivable was recognized in net income using the effective interest method.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (j) Investments and other financial assets

**(i) Classification**

Management determines the classification of its financial assets based on the business model for managing the financial assets and the contractual terms of the cash flows. Saudi Aramco's financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

For financial assets measured at fair value, gains and losses are recorded either in net income or other comprehensive income. For investments in debt securities, this depends on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this depends 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 payments 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.

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.

## 2. Summary of significant accounting policies, judgments and estimates continued

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.

### (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 remeasured 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 counterparties 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 economic relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction.

The fair value of a derivative financial instrument used for hedging purposes is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months; otherwise, it is classified as a non-current asset or liability.

1) Fair value hedges
A fair value hedge is a hedge of the fair value of a recognized asset or liability or firm commitment and comprises currency forward contracts. The gain or loss from the changes in the fair value of the currency forward contracts is recognized in net income, together with changes in the fair value of the hedged item.

2) Cash flow hedges
A cash flow hedge is a hedge of a particular risk associated with all or a component of a recognized asset or liability or a highly probable forecast transaction, and could affect profit or loss. 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (l) 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 Tax Law. In addition, income tax expense results from taxable income generated by foreign affiliates.

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.

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(y)) and for the past due trade receivables of specified Government and semi-Government agencies to whom the Company supplies specified products and services.

Revenue on sales to these specified Government and semi-Government agencies is recognized upon the satisfaction of performance obligations, which occurs when control transfers to these customers. Control of the products is determined to be transferred when the title of products passes, which typically takes place when product is physically transferred to these customers. 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 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. Balances due from the Government at December 31 represent 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (p) Treasury shares

Treasury shares are recognized as a deduction from equity at the amount of consideration paid by the Company for their acquisition, including any directly attributable transaction costs incurred.

### (q) Financial liabilities

Financial liabilities are classified as financial liabilities at FVPL or as financial liabilities measured at amortized cost, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

Saudi Aramco's financial liabilities are:

**(i) Financial liabilities at FVPL**
Derivative financial liabilities are categorized as held for trading unless they are designated as hedges (Note 2(k)). Derivative financial liabilities held for trading are included in current liabilities under trade and other payables with gains or losses recognized in net income.

**(ii) Financial liabilities at amortized cost**
Financial liabilities other than financial liabilities at FVPL are classified as financial liabilities measured at amortized cost net of transaction costs. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Discounting is omitted when the effect is immaterial. Financial liabilities measured at amortized cost are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial liabilities at amortized cost include trade and other payables and borrowings. Financial liabilities are disclosed separately from financial assets in the Consolidated Balance Sheet unless there is a right to offset.

### (r) 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.

### (s) 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

**(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 costs 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 20.

### (t) Share-based compensation

The cost of an equity-settled award granted to employees is measured by reference to the fair value of the equity instrument on the date the award is granted. This cost is recognized as an employee benefit expense in the income statement with a corresponding increase in equity.

The cost of a cash-settled award granted to employees is measured by reference to the fair value of the liability at each balance sheet date until settlement. This cost is recognized as an employee benefit expense in the income statement with the corresponding recognition of a liability on the balance sheet.

The cost of both the equity-settled and cash-settled awards is recognized over the vesting period, which is the period over which the employees render the required service for the award and any non-market performance condition attached to the award is required to be met. Additionally, for a cash-settled award, any changes in the fair value of the liability between the vesting date and the date of its settlement are also recognized in the income statement within employee benefit expense.

In determining the fair value of an equity-settled or cash-settled award, an appropriate valuation method is applied. Service and non-market performance conditions are not taken into account in determining the fair value of the award, but during the vesting period the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of awards that are expected to vest. Any market performance conditions and non-vesting conditions are taken into account in determining the award's fair value.

### (u) 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

*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 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 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 21.

### (v) 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.

### (w) 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 at December 31, 2019 and 2018, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the balance sheet dates.

### (x) 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.

## 2. Summary of significant accounting policies, judgments and estimates continued

### (y) 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 (Note 2(a)(ii)). 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 in 2017.

This compensation is recorded as other income related to sales, that is taxable, when the Company has satisfied its performance obligations through transfer of the title to the buyer, 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.

### (z) 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 (Note 2(a)(i)). All such royalties are accounted for as an expense in the Consolidated Statement of Income and are deductible costs for Government income tax calculations.

### (aa) 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.

### (bb) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

### (cc) Earnings per share

**(i) Basic earnings per share**
Basic earnings per share is calculated by dividing:

- the net income attributable to the ordinary shareholder of the Company; and
- by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

**(ii) Diluted earnings per share**
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (dd) Reclassifications

Certain comparative amounts in the Consolidated Statement of Income and Consolidated Balance Sheet for the year ended December 31, 2018 have been reclassified to conform to the current year presentation. Such reclassifications did not impact the previously reported net income. These include certain sales of crude oil and related purchases of refined products in the amount of SAR 12,239, which are presented in the Consolidated Statement of Income as revenue and purchases reflecting current trading arrangements.

## 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(v)), are linked to its functional currency or are hedged. Saudi Aramco's limited foreign currency exchange risk arises from future commercial transactions or recognized assets or liabilities denominated in a currency that is not Saudi Aramco's functional currency. In addition, a substantial amount of costs of Saudi Aramco are denominated in SAR which has been at a fixed rate to USD since 1986. A change in the fixed exchange rate would result in foreign exchange differences being recognized in the consolidated financial statements.

Saudi Aramco engages in hedging activities through the use of currency forward contracts to manage its exchange exposure from significant transactions denominated in a foreign currency. The hedge ratio considers variability in potential outcomes, spot rates, as well as interest rates, and on a transaction by transaction basis can cover up to 100% of the exposure at inception.

The notional amounts of outstanding currency forward contracts designated as hedging instruments are included in Note 28.

**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, 2019 and 2018, 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 412 and SAR 366, respectively.

At December 31, 2019 and 2018, 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 240 and SAR 209, 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 28.

**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, 2019 and 2018, a change of 1% in market interest rates, with all other variables held constant, would result in a net change of SAR 435 and SAR 1,125, 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 28.

## 3. Financial risk management continued

**(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 December 31, 2019, all the short-term investments were with financial institutions assigned a long-term credit rating of "BBB" (2018: "BBB+") or above.

Employee home loans (Note 9) 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 19). 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 19 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, comprised of borrowings and shareholders' 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 Saudi Aramco'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 2,490 per loss event (2018: SAR 2,118) 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 (2018: SAR 4,875) per event dependent on the circumstances.

All amounts in millions of Saudi Riyals unless otherwise stated

# 3. Financial risk management continued

## (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 that are measured and recognized at amortized cost 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

The following table presents Saudi Aramco's assets and liabilities measured and recognized at fair value at the years ended December 31, 2019 and 2018, based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at December 31, 2019 and 2018.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Investments in securities: | | | | |
| Equity securities at FVOCI | **8,246** | **–** | **1,244** | **9,490** |
| Debt securities at FVOCI | **1** | **4,563** | **–** | **4,564** |
| Equity securities at FVPL | **–** | **1,265** | **4,918** | **6,183** |
| Trade receivables related to contracts with provisional pricing arrangements | **–** | **–** | **75,723** | **75,723** |
| | **8,247** | **5,828** | **81,885** | **95,960** |
| Other assets and receivables: | | | | |
| Interest rate swaps | **–** | **13** | **–** | **13** |
| Commodity swaps | **–** | **288** | **–** | **288** |
| Currency forward contracts | **–** | **30** | **–** | **30** |
| | **–** | **331** | **–** | **331** |
| **Total assets** | **8,247** | **6,159** | **81,885** | **96,291** |
| 2018 | | | | |
| Investments in securities: | | | | |
| Equity securities at FVOCI | 7,324 | – | 1,293 | 8,617 |
| Debt securities at FVOCI | 19 | 3,908 | – | 3,927 |
| Equity securities at FVPL | – | 991 | 4,237 | 5,228 |
| Trade receivables related to contracts with provisional pricing arrangements | – | – | 73,509 | 73,509 |
| | 7,343 | 4,899 | 79,039 | 91,281 |
| Other assets and receivables: | | | | |
| Interest rate swaps | – | 191 | – | 191 |
| Commodity swaps | 184 | 2,393 | – | 2,577 |
| Currency forward contracts | – | 33 | – | 33 |
| | 184 | 2,617 | – | 2,801 |
| Total assets | 7,527 | 7,516 | 79,039 | 94,082 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 3. Financial risk management continued

| **Liabilities** | **Level 1** | **Level 2** | **Level 3** | Total |
|---|---|---|---|---|
| **2019** | | | | |
| Trade and other payables: | | | | |
| Interest rate swaps | **–** | **338** | **–** | **338** |
| Commodity swaps | **–** | **521** | **–** | **521** |
| Currency forward contracts | **–** | **109** | **–** | **109** |
| | **–** | **968** | **–** | **968** |
| 2018 | | | | |
| Trade and other payables: | | | | |
| Interest rate swaps | – | 71 | – | 71 |
| Commodity swaps | – | 1,069 | – | 1,069 |
| Currency forward contracts | – | 180 | – | 180 |
| | – | 1,320 | – | 1,320 |

The valuation techniques for Saudi Aramco's investments in securities are described in Note 10. The changes in Level 3 investments in securities and other current assets for the years ended December 31, 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| January 1 | **5,530** | 5,283 |
| Net additions | **286** | 389 |
| Net movement in unrealized fair value gain/(loss) | **346** | (161) |
| Acquisition | **–** | 11 |
| Realized gain | **–** | 8 |
| December 31 | **6,162** | 5,530 |

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 (Note 12). Unrealized fair value movements on these trade receivables are not significant.

## 4. Operating segments

Saudi Aramco is engaged in prospecting, exploring, drilling, extracting, processing, manufacturing, refining and marketing hydrocarbon substances within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside 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, 2019, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into a Corporate segment. Upstream activities include crude oil, natural gas and natural gas liquids exploration, field development and production. Downstream activities include the refining, logistics, power generation, and 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.

All amounts in millions of Saudi Riyals unless otherwise stated

## 4. Operating segments continued

The accounting policies used by Saudi Aramco in reporting segments internally are the same as those contained in Note 2 of the consolidated financial statements.

Information by segments is as follows:

| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **2019** | | | | | |
| External revenue | **709,250** | **395,099** | **1,347** | **–** | **1,105,696** |
| Other income related to sales | **34,446** | **96,643** | **–** | **–** | **131,089** |
| Inter-segment revenue | **226,699** | **35,677** | **292** | **(262,668)** | **–** |
| Share of results of joint ventures and associates | **(3)** | **(9,371)** | **(81)** | **–** | **(9,455)** |
| Depreciation and amortization | **(30,855)** | **(14,350)** | **(5,061)** | **–** | **(50,266)** |
| Dividends and other income | **–** | **1,800** | **17** | **–** | **1,817** |
| Earnings (losses) before interest and income taxes | **689,894** | **(3,478)** | **(13,098)** | **(6,085)** | **667,233** |
| Finance income | | | | | **5,534** |
| Finance costs | | | | | **(6,026)** |
| Income before income taxes | | | | | **666,741** |
| Capital expenditures – cash basis | **93,927** | **26,696** | **2,259** | **–** | **122,882** |
| 2018 | | | | | |
| External revenue | 788,472 | 404,575 | 1,329 | – | 1,194,376 |
| Other income related to sales | 37,189 | 115,452 | – | – | 152,641 |
| Inter-segment revenue | 276,500 | 32,798 | 256 | (309,554) | – |
| 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 (losses) before interest and income 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 |

Information by geographical area is as follows:

| | In-Kingdom | Out of Kingdom | Total |
|---|---|---|---|
| **2019** | | | |
| External revenue | **871,451** | **234,245** | **1,105,696** |
| Property, plant and equipment, intangible assets, investments in joint ventures and associates | **900,938** | **130,936** | **1,031,874** |
| 2018 | | | |
| External revenue | 991,769 | 202,607 | 1,194,376 |
| Property, plant and equipment, intangible assets, investments in joint ventures and associates | 814,997 | 108,305 | 923,302 |

Sales to external customers by region are based on the location of the Saudi Aramco entity, which made the sale. Out of Kingdom revenue includes sales of SAR 119,325 originating from the United States of America ("USA") (2018: SAR 118,762).

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.

All amounts in millions of Saudi Riyals unless otherwise stated

## 5. Property, plant and equipment

| | Crude oil facilities | Refinery and petrochemical facilities | Gas and NGL facilities | General service plant | Construction-in-progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| January 1, 2019 | **503,281** | **205,233** | **361,141** | **88,482** | **257,607** | **1,415,744** |
| Adjustment for change in accounting policy (Note 2(c)(i)) | **6,337** | **8,005** | **254** | **11,455** | **–** | **26,051** |
| Additions | **4,929** | **3,545** | **164** | **2,559** | **110,995** | **122,192** |
| Acquisitions (Note 33) | **–** | **10,395** | **–** | **–** | **1,329** | **11,724** |
| Derecognition on acquisition of joint operation (Note 33(a)(ii)) | **–** | **(5,240)** | **–** | **–** | **(977)** | **(6,217)** |
| Construction completed | **25,517** | **12,764** | **34,647** | **6,865** | **(79,793)** | **–** |
| Currency translation differences | **–** | **(1,892)** | **–** | **–** | **(98)** | **(1,990)** |
| Transfers and adjustments | **(646)** | **513** | **307** | **(23)** | **300** | **451** |
| Transfer of exploration and evaluation assets | **–** | **–** | **–** | **–** | **2,119** | **2,119** |
| Retirements and sales | **(2,119)** | **(2,274)** | **(113)** | **(756)** | **–** | **(5,262)** |
| **December 31, 2019** | **537,299** | **231,049** | **396,400** | **108,582** | **291,482** | **1,564,812** |
| **Accumulated depreciation** | | | | | | |
| January 1, 2019 | **(253,544)** | **(74,438)** | **(160,220)** | **(53,715)** | **–** | **(541,917)** |
| Additions | **(18,729)** | **(10,213)** | **(13,828)** | **(6,370)** | **–** | **(49,140)** |
| Derecognition on acquisition of joint operation (Note 33(a)(ii)) | **–** | **4,231** | **–** | **–** | **–** | **4,231** |
| Currency translation differences | **–** | **659** | **–** | **–** | **–** | **659** |
| Transfers and adjustments | **(25)** | **(510)** | **(354)** | **18** | **–** | **(871)** |
| Retirements and sales | **1,193** | **2,238** | **102** | **707** | **–** | **4,240** |
| **December 31, 2019** | **(271,105)** | **(78,033)** | **(174,300)** | **(59,360)** | **–** | **(582,798)** |
| **Property, plant and equipment – net, December 31, 2019** | **266,194** | **153,016** | **222,100** | **49,222** | **291,482** | **982,014** |
| Cost | | | | | | |
| January 1, 2018 | 468,598 | 172,065 | 329,480 | 78,951 | 206,248 | 1,255,342 |
| Additions | 2,107 | 3,006 | 264 | 9,124 | 119,402 | 133,903 |
| Acquisitions (Note 33) | – | 9,019 | – | – | 18,878 | 27,897 |
| Construction completed | 29,829 | 23,669 | 31,470 | 4,177 | (89,145) | – |
| Currency translation differences | – | (1,820) | – | (1) | (469) | (2,290) |
| Transfers and adjustments | 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) |
| December 31, 2018 | 503,281 | 205,233 | 361,141 | 88,482 | 257,607 | 1,415,744 |
| Accumulated depreciation | | | | | | |
| 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 and adjustments | (164) | 202 | – | 404 | – | 442 |
| Retirements and sales | 557 | 104 | 66 | 615 | – | 1,342 |
| December 31, 2018 | (253,544) | (74,438) | (160,220) | (53,715) | – | (541,917) |
| Property, plant and equipment – net, December 31, 2018 | 249,737 | 130,795 | 200,921 | 34,767 | 257,607 | 873,827 |

Additions to right-of-use assets during the year ended December 31, 2019 were SAR 9,670.

All amounts in millions of Saudi Riyals unless otherwise stated

## 5. Property, plant and equipment continued

The following table presents depreciation charges and net carrying amounts of right-of-use assets by class of assets.

| | Depreciation expense for the year ended December 31, 2019 | Carrying amount at December 31, 2019 |
|---|---|---|
| Crude oil facilities | 2,591 | 8,202 |
| Refinery and petrochemical facilities | 1,276 | 10,045 |
| Gas and NGL facilities | 178 | 190 |
| General service plant | 3,634 | 22,222 |
| | 7,679 | 40,659 |

At December 31, 2018, finance lease assets with net book values of SAR 11,912 and SAR 705 were 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 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| January 1, 2019 | 18,916 | 4,827 | 1,263 | 4,310 | 2,157 | 31,473 |
| Additions | 8,333 | – | – | 303 | 65 | 8,701 |
| Acquisitions (Note 33) | – | – | 544 | 57 | 527 | 1,128 |
| Derecognition on acquisition of joint operation (Note 33(a)(ii)) | – | – | – | (84) | – | (84) |
| Currency translation differences | – | (84) | (43) | – | (72) | (199) |
| Transfers and adjustments | – | 48 | – | (114) | 80 | 14 |
| Transfer of exploration and evaluation assets | (2,119) | – | – | – | – | (2,119) |
| Retirements | (3,217) | – | – | (44) | – | (3,261) |
| **December 31, 2019** | 21,913 | 4,791 | 1,764 | 4,428 | 2,757 | 35,653 |
| **Accumulated amortization** | | | | | | |
| January 1, 2019 | – | (1,046) | (715) | (2,541) | (275) | (4,577) |
| Additions | – | (424) | (174) | (368) | (160) | (1,126) |
| Derecognition on acquisition of joint operation (Note 33(a)(ii)) | – | – | – | 45 | – | 45 |
| Currency translation differences | – | 22 | 23 | – | 53 | 98 |
| Transfers and adjustments | – | – | – | (15) | – | (15) |
| Retirements | – | – | – | 44 | – | 44 |
| **December 31, 2019** | – | (1,448) | (866) | (2,835) | (382) | (5,531) |
| **Intangible assets – net, December 31, 2019** | 21,913 | 3,343 | 898 | 1,593 | 2,375 | 30,122 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 6. Intangible assets continued

| | Exploration and evaluation | Brands and trademarks | Franchise/ customer relationships | Computer software | Other | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| January 1, 2018 | 16,008 | 4,931 | 1,318 | 4,101 | 1,589 | 27,947 |
| Additions | 8,023 | – | – | 252 | 80 | 8,355 |
| Acquisitions (Note 33(a)(iv)) | – | – | – | 189 | 270 | 459 |
| Currency translation differences | – | (104) | (55) | – | (7) | (166) |
| Transfers and adjustments | – | – | – | (232) | 225 | (7) |
| Transfer of exploration and evaluation assets | (2,164) | – | – | – | – | (2,164) |
| Retirements | (2,951) | – | – | – | – | (2,951) |
| December 31, 2018 | 18,916 | 4,827 | 1,263 | 4,310 | 2,157 | 31,473 |
| | | | | | | |
| Accumulated amortization | | | | | | |
| January 1, 2018 | – | (660) | (557) | (2,351) | (33) | (3,601) |
| Additions | – | (408) | (184) | (261) | (140) | (993) |
| Currency translation differences | – | 24 | 26 | – | – | 50 |
| Transfers and adjustments | – | (2) | – | 71 | (102) | (33) |
| December 31, 2018 | – | (1,046) | (715) | (2,541) | (275) | (4,577) |
| Intangible assets – net, December 31, 2018 | 18,916 | 3,781 | 548 | 1,769 | 1,882 | 26,896 |

Other intangible assets include licenses and usage rights of SAR 762 (2018: SAR 882), patents and intellectual property of SAR 535 (2018: SAR 420) and goodwill of SAR 1,078 (2018: SAR 580).

Cash used for exploration and evaluation operating activities in 2019 was SAR 4,074 (2018: SAR 4,977) and expenditures for investing activities were SAR 8,333 (2018: SAR 8,023).

All amounts in millions of Saudi Riyals unless otherwise stated

## 7. Investments in joint ventures and associates

| Company | Equity ownership 2019/2018 | Principal place of business | Nature of activities | **Carrying amount at December 31, 2019** | Carrying amount at December 31, 2018 |
|---|---|---|---|---|---|
| Sadara Chemical Company ("Sadara")[1, 2, 5] | 65% | Saudi Arabia | Petrochemical | **4,483** | 11,660 |
| Hyundai Oilbank Co.,Ltd. ("Hyundai Oilbank") | 17%/Nil | South Korea | Refining/marketing/ petrochemical | **4,372** | – |
| Rabigh Refining and Petrochemical Company ("Petro Rabigh")[2, 3] | 37.5% | Saudi Arabia | Refining/petrochemical | **2,458** | 2,763 |
| Fujian Refining and Petrochemical Company Limited ("FREP") | 25% | People's Republic of China | Refining/petrochemical | **2,070** | 2,419 |
| National Shipping Company of Saudi Arabia ("Bahri")[3] | 20% | Saudi Arabia | Global logistics services | **2,063** | 2,129 |
| Power & Water Utility Company for Jubail and Yanbu ("Marafiq") (formerly: Jubail and Yanbu Electricity and Water Utility Company) | 24.8% | Saudi Arabia | Utilities | **1,877** | 1,831 |
| Tas'helat Marketing Company ("TMC") | 50%/Nil | Saudi Arabia | Marketing | **433** | – |
| The International Maritime Industries Company ("IMIC")[1, 4] | 50.1% | Saudi Arabia | Maritime | **371** | 425 |
| Sinopec SenMei (Fujian) Petroleum Company Limited ("SSPC") | 22.5% | People's Republic of China | Marketing/petrochemical | **392** | 401 |
| Saudi Arabian Industrial Investment Company ("Dussur") | 25% | Saudi Arabia | Investment | **374** | 116 |
| Juniper Ventures of Texas LLC ("JVTX")[1] | 60% | USA | Marketing | **326** | 331 |
| First Coast Energy LLP ("FCE") | 50% | USA | Marketing | **257** | 263 |
| S-Oil TOTAL Lubricants Co., Ltd. | 50% | South Korea | Lubricants production/sale | **138** | 147 |
| GCC Electrical Equipment Testing Lab ("GCC Lab") | 20% | Saudi Arabia | Inspection | **57** | 63 |
| Star Enterprises LLC ("Star-Ent") | 50% | USA | Pension administration | **36** | 27 |
| Saudi Silk Road Industrial Services Company ("SSRIS") | 20%/Nil | Saudi Arabia | Investment services | **23** | – |
| Arabian Rig Manufacturing Company ("ARM") | 30%/Nil | Saudi Arabia | Rig manufacturing | **6** | – |
| Jasara Program Management Company ("Jasara")[6] (formerly: Pan Arabian Program Management Company) | 20%/50% | Saudi Arabia | Engineering services | **2** | 4 |
| | | | | **19,738** | 22,579 |

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. Saudi Aramco has provided guarantees as described in Note 27.
3. Listed company.
4. On August 27, 2019, Saudi Aramco agreed to sell 10% of its shareholding in IMIC to Korea Shipbuilding and Offshore Engineering (formerly: Hyundai Heavy Industries) subject to certain conditions to be met within one year of the agreement.
5. During the year ended December 31, 2019, the management of Sadara identified certain indicators of impairment, which required a detailed impairment assessment of Sadara's long-lived assets. As a result of the assessment, Sadara recognized an impairment loss of SAR 9,225 for the year ended December 31, 2019 of which Saudi Aramco's share is SAR 5,996.
6. On July 2, 2019, Saudi Aramco sold 30% of its ownership interest to the Saudi Public Investment Fund for SAR 14 (Note 32(a)).

The components of the change in the investments in joint ventures and associates for the years ended December 31 are as follows:

| | **Joint ventures** | | **Associates** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **January 1** | **12,425** | 12,216 | **10,154** | 15,057 |
| Share of results of joint ventures and associates | **(9,435)** | (2,608) | **(20)** | 1,193 |
| Additional investment | **2,860** | 2,531 | **285** | 368 |
| Investments in joint ventures and associates (Note 33) | **385** | 331 | **4,414** | – |
| Derecognition of investment in ARLANXEO (Note 33(a)(iv)) | **–** | – | **–** | (4,943) |
| Distributions | **(89)** | (75) | **(689)** | (998) |
| Change in elimination of profit in inventory | **27** | (23) | **(267)** | (80) |
| Share of other comprehensive (loss) income | **(479)** | 53 | **(8)** | (443) |
| Other | **4** | – | **171** | – |
| **December 31** | **5,698** | 12,425 | **14,040** | 10,154 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 7. Investments in joint ventures and associates continued

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in the consolidated financial statements at December 31, 2019 are set out below:

**Summarized balance sheet**
**At December 31, 2019**

| | Sadara | Hyundai Oilbank | Petro Rabigh | FREP | Bahri | Other | Total |
|---|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | | |
| Cash and cash equivalents | 1,611 | 1,556 | 316 | 3,012 | 164 | 3,887 | 10,546 |
| Other | 6,780 | 13,245 | 11,147 | 6,429 | 2,878 | 3,501 | 43,980 |
| Total current assets | 8,391 | 14,801 | 11,463 | 9,441 | 3,042 | 7,388 | 54,526 |
| **Non-current assets** | 57,559 | 35,670 | 62,509 | 9,506 | 17,206 | 27,373 | 209,823 |
| **Current liabilities:** | | | | | | | |
| Financial liabilities (excluding trade and other payables) | 5,080 | 4,226 | 17,372 | 688 | 733 | 1,294 | 29,393 |
| Other | 2,102 | 9,030 | 10,517 | 3,811 | 1,249 | 4,891 | 31,600 |
| Total current liabilities | 7,182 | 13,256 | 27,889 | 4,499 | 1,982 | 6,185 | 60,993 |
| **Non-current liabilities:** | | | | | | | |
| Financial liabilities (excluding trade and other payables) | 50,771 | 10,133 | 35,389 | 6,019 | 8,739 | 13,888 | 124,939 |
| Other | 746 | 660 | 654 | 149 | 107 | 1,396 | 3,712 |
| Total non-current liabilities | 51,517 | 10,793 | 36,043 | 6,168 | 8,846 | 15,284 | 128,651 |
| **Net assets** | 7,251 | 26,422 | 10,040 | 8,280 | 9,420 | 13,292 | 74,705 |
| Saudi Aramco interest | 65% | 17% | 37.5% | 25% | 20% | 17%-60% | |
| **Saudi Aramco share** | 4,713 | 4,492 | 3,765 | 2,070 | 1,884 | 3,815 | 20,739 |
| Elimination of profit in inventory | 35 | – | (655) | – | – | 1 | (619) |
| Fair value and other adjustments | (265) | (120) | (652) | – | 179 | 476 | (382) |
| **Investment balance, December 31** | 4,483 | 4,372 | 2,458 | 2,070 | 2,063 | 4,292 | 19,738 |

**Summarized statement of comprehensive income**
**Year ended December 31, 2019**

| | Sadara | Hyundai Oilbank | Petro Rabigh | FREP | Bahri | Other | Total |
|---|---|---|---|---|---|---|---|
| Revenue | 10,108 | 2,814 | 42,420 | 31,017 | 6,409 | 29,534 | 122,302 |
| Depreciation and amortization | 3,850 | 6 | 2,973 | 1,381 | 933 | 1,581 | 10,724 |
| Conventional interest income | – | 8 | 384 | 67 | – | 85 | 544 |
| Interest expense | 2,448 | 29 | 1,225 | 325 | 566 | 534 | 5,127 |
| Income tax expense | 76 | 12 | 225 | 107 | 91 | 166 | 677 |
| Net (loss) income | (14,653) | 42 | (650) | 271 | 477 | 613 | (13,900) |
| Other comprehensive loss | (741) | – | (59) | (104) | (23) | (36) | (963) |
| Total comprehensive (loss) income | (15,394) | 42 | (709) | 167 | 454 | 577 | (14,863) |

All amounts in millions of Saudi Riyals unless otherwise stated

## 7. Investments in joint ventures and associates continued

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Tadawul and included above, are as follows:

| | Conventional financial assets as of December 31, 2019 | Conventional financial liabilities as of December 31, 2019 | Interest income from conventional financial assets for the year ended December 31, 2019 |
|---|---|---|---|
| Sadara | **5,648** | **42,991** | **–** |
| Hyundai Oilbank | **8,910** | **14,359** | **8** |
| FREP | **5,576** | **6,707** | **67** |
| Marafiq | **2,887** | **5,462** | **25** |
| TMC | **241** | **261** | **–** |
| IMIC | **175** | **9** | **–** |
| SSPC | **1,244** | **2,149** | **23** |
| Dussur | **1,409** | **7** | **34** |
| JVTX | **17** | **–** | **–** |
| FCE | **–** | **436** | **–** |
| S-Oil TOTAL Lubricants Co., Ltd. | **282** | **202** | **–** |
| GCC Lab | **58** | **2** | **2** |
| Star-Ent | **8** | **–** | **–** |
| SSRIS | **113** | **–** | **–** |
| ARM | **4** | **34** | **–** |
| Jasara | **195** | **110** | **–** |

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in the consolidated financial statements at December 31, 2018 are set out below:

**Summarized balance sheet**
**At December 31, 2018**

| | Sadara | Petro Rabigh | FREP | Bahri | Other | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | 1,384 | 3,184 | 4,035 | 638 | 3,551 | 12,792 |
| Other | 7,931 | 15,904 | 5,104 | 3,210 | 3,293 | 35,442 |
| Total current assets | 9,315 | 19,088 | 9,139 | 3,848 | 6,844 | 48,234 |
| **Non-current assets** | 72,422 | 52,178 | 10,851 | 18,000 | 24,019 | 177,470 |
| **Current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | 3,525 | 13,898 | 656 | 1,478 | 1,413 | 20,970 |
| Other | 6,105 | 14,273 | 2,700 | 1,136 | 4,714 | 28,928 |
| Total current liabilities | 9,630 | 28,171 | 3,356 | 2,614 | 6,127 | 49,898 |
| **Non-current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | 48,634 | 33,641 | 6,806 | 9,401 | 11,674 | 110,156 |
| Other | 5,280 | 488 | 154 | 65 | 1,251 | 7,238 |
| Total non-current liabilities | 53,914 | 34,129 | 6,960 | 9,466 | 12,925 | 117,394 |
| **Net assets** | 18,193 | 8,966 | 9,674 | 9,768 | 11,811 | 58,412 |
| Saudi Aramco interest | 65% | 37.5% | 25% | 20% | 20%-50.1% | |
| **Saudi Aramco share** | 11,825 | 3,362 | 2,419 | 1,954 | 3,409 | 22,969 |
| Elimination of profit in inventory | 11 | (388) | – | – | (2) | (379) |
| Fair value and other adjustments | (176) | (211) | – | 175 | 201 | (11) |
| **Investment balance, December 31** | 11,660 | 2,763 | 2,419 | 2,129 | 3,608 | 22,579 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 7. Investments in joint ventures and associates continued

**Summarized statement of comprehensive income**
**Year ended December 31, 2018**

| | Sadara | Petro Rabigh | FREP | Bahri | Other | Total |
|---|---|---|---|---|---|---|
| Revenue | 13,114 | 42,165 | 29,760 | 5,783 | 43,230 | 134,052 |
| Depreciation and amortization | 3,848 | 2,445 | 1,373 | 833 | 2,850 | 11,349 |
| Conventional interest income | – | 296 | 90 | – | 60 | 446 |
| Interest expense | 2,258 | 728 | 368 | 270 | 502 | 4,126 |
| Income tax expense | 49 | 128 | 638 | 101 | 319 | 1,235 |
| Net (loss) income | (4,009) | 1,301 | 1,609 | 611 | 319 | (169) |
| Other comprehensive income (loss) | 94 | (15) | (495) | – | (664) | (1,080) |
| Total comprehensive (loss) income | (3,915) | 1,286 | 1,114 | 611 | (345) | (1,249) |

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Tadawul 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 |
| IMIC | 859 | 124 | – |
| SSPC | 1,155 | – | 30 |
| Dussur | 544 | 8 | – |
| JVTX | 8 | 23 | – |
| FCE | – | 585 | – |
| S-Oil TOTAL Lubricants Co., Ltd. | 251 | 143 | – |
| GCC LAB | 109 | – | 4 |
| Star-Ent | – | – | – |
| Jasara | 38 | – | – |

Saudi Aramco's share of the fair value of the associates listed on the Tadawul at December 31 together with their carrying value at those dates is as follows:

| | Fair value | | Carrying value | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Petro Rabigh | **7,115** | 6,268 | **2,458** | 2,763 |
| Bahri | **3,150** | 2,630 | **2,063** | 2,129 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 8. Income taxes

### (a) Kingdom income tax rates

The Company is subject to an income tax rate of 20% on the activities of exploration and production of non-associated natural gas, including gas condensates, as well as the collection, treatment, processing, fractionation and transportation of associated and non-associated natural gas and their liquids, gas condensates and other associated elements, and an income tax rate of 50% on all other activities, in accordance with the Tax Law.

Effective January 1, 2020, the tax rate applicable to the Company's Downstream activities was reduced from the 50% rate applicable to qualified domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Tax Law. The new rate is conditioned on the Company separating its Downstream activities under the control of one or more separate wholly owned subsidiaries before December 31, 2024, otherwise the Company's Downstream activities will be retroactively taxed at 50%. The Company expects to transfer all its Downstream activities into a separate legal entity or entities within the period specified (Note 2(a)(iii)).

Income tax expense is primarily based on income arising in Saudi Arabia.

The reconciliation of tax charge at the Kingdom statutory rates to consolidated tax charge is as follows:

| | **2019** | 2018 |
|---|---|---|
| Income before income taxes | **666,741** | 797,896 |
| Income taxes at the Kingdom's statutory tax rates | **328,721** | 387,937 |
| Tax effect of: | | |
| Impact of change in income tax rates on deferred tax | **2,655** | (3,904) |
| Impact of change from zakat to income tax on investments in shares of resident capital companies | **–** | 1,282 |
| Income not subject to tax at statutory rates and other | **4,672** | (3,937) |
| | **336,048** | 381,378 |

### (b) Income tax expense

| | **2019** | 2018 |
|---|---|---|
| Current income tax – Kingdom | **319,979** | 365,415 |
| Current income tax – Foreign | **353** | 349 |
| Deferred income tax – Kingdom: | | |
| Impact of change in income tax rates | **2,655** | (3,904) |
| Charge for the period | **12,610** | 19,830 |
| Deferred income tax – Foreign | **451** | (312) |
| | **336,048** | 381,378 |

Saudi Aramco paid foreign taxes of SAR 437 and SAR 605 for the years ended December 31, 2019 and 2018, respectively.

Income tax expense recorded through other comprehensive income was SAR 1,542 for the year ended December 31, 2019 (2018: SAR 5,863).

### (c) Income tax obligation to the Government

| | **2019** | 2018 |
|---|---|---|
| **January 1** | **70,299** | 59,584 |
| Provided during the period | **319,979** | 365,415 |
| Payments during the period by the Company (Note 31) | **(149,780)** | (180,225) |
| Payments during the period by subsidiaries and joint operations | **(1,023)** | (1,075) |
| Settlements of due from the Government | **(172,301)** | (167,752) |
| Other settlements | **(4,931)** | (5,648) |
| **December 31** | **62,243** | 70,299 |

All amounts in millions of Saudi Riyals unless otherwise stated

# 8. Income taxes continued

## (d) Deferred income tax

| | 2019 | 2018 |
|---|---|---|
| **Deferred income tax assets:** | | |
| Kingdom | **12,386** | 8,946 |
| U.S. Federal and State | **31** | 14 |
| Other foreign | **311** | 906 |
| | **12,728** | 9,866 |
| **Deferred income tax liabilities:** | | |
| Kingdom | **37,943** | 18,637 |
| U.S. Federal and State | **3,312** | 2,234 |
| Other foreign | **3,216** | 3,006 |
| | **44,471** | 23,877 |
| **Net deferred income tax liabilities** | **(31,743)** | (14,011) |

The gross movement of the net deferred income tax position is as follows:

| | 2019 | 2018 |
|---|---|---|
| **January 1** | **(14,011)** | 7,297 |
| Impact of change in income tax rate – (charge)/credit to income | **(2,655)** | 3,904 |
| Impact of change in income tax rate – Other reserves | **(284)** | (119) |
| Current period charge to income | **(13,061)** | (19,518) |
| Adjustments to equity – Other reserves | **(1,258)** | (5,744) |
| Other adjustments | **(474)** | 169 |
| **December 31** | **(31,743)** | (14,011) |

| | 2019 | 2018 |
|---|---|---|
| Deferred income tax to be settled after more than 12 months | **(31,743)** | (14,011) |
| Deferred income tax to be recovered within 12 months | **–** | – |
| **Net deferred income tax liabilities** | **(31,743)** | (14,011) |

All amounts in millions of Saudi Riyals unless otherwise stated

## 8. Income taxes continued

The movement in deferred income tax assets/(liabilities) for the years ended December 31 is as follows:

| | Post-employment benefit obligations | Investment in subsidiary | Undistributed earnings | Provisions and other | Loss carry-forward | Property plant and equipment and intangibles | Investments in securities at FVOCI | Total |
|---|---|---|---|---|---|---|---|---|
| **January 1, 2018** | | | | | | | | |
| 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) |
| | 19,411 | (6,726) | (885) | 11,475 | 7,341 | (20,797) | (2,522) | 7,297 |
| Recognized during the year | | | | | | | | |
| Impact of change in 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 (charges)/ credits | (6,636) | – | – | – | – | – | 892 | (5,744) |
| Other adjustments | – | – | – | 169 | – | – | – | 169 |
| | (8,159) | 3,094 | 105 | (2,636) | 433 | (15,037) | 892 | (21,308) |
| **December 31, 2018** | | | | | | | | |
| 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) |
| | 11,252 | (3,632) | (780) | 8,839 | 7,774 | (35,834) | (1,630) | (14,011) |
| **Recognized during the year** | | | | | | | | |
| Impact of change in income tax rate | **(464)** | **–** | **–** | **(457)** | **–** | **(2,198)** | **180** | **(2,939)** |
| Current period credits/ (charges) to income | **194** | **(1,196)** | **44** | **3,285** | **2,043** | **(17,431)** | **–** | **(13,061)** |
| Impact of adoption of IFRS 16 | **–** | **–** | **–** | **7,906** | **–** | **(7,906)** | **–** | **–** |
| Other reserves charges | **(526)** | **–** | **–** | **–** | **–** | **–** | **(732)** | **(1,258)** |
| Other adjustments | **–** | **–** | **–** | **(474)** | **–** | **–** | **–** | **(474)** |
| | **(796)** | **(1,196)** | **44** | **10,260** | **2,043** | **(27,535)** | **(552)** | **(17,732)** |
| **December 31, 2019** | | | | | | | | |
| Deferred tax assets | **3,328** | **–** | **–** | **685** | **8,715** | **–** | **–** | **12,728** |
| Deferred tax liabilities | **7,128** | **(4,828)** | **(736)** | **18,414** | **1,102** | **(63,369)** | **(2,182)** | **(44,471)** |
| | **10,456** | **(4,828)** | **(736)** | **19,099** | **9,817** | **(63,369)** | **(2,182)** | **(31,743)** |

To reflect the change in income tax rate effective January 1, 2020 for Downstream activities, deferred tax liabilities, net of deferred tax assets, were increased by SAR 2,939, of which SAR 2,655 was recognized as an increase of income taxes in the Consolidated Statement of Income, and SAR 284 was recognized as an increase of income taxes in the Consolidated Statement of Comprehensive Income.

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 32,674 and SAR 31,922 at December 31, 2019 and 2018, respectively, and the unrecognized deferred income tax liability is SAR 3,215 and SAR 3,547 at December 31, 2019 and 2018, 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 October 2019, 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, 2018 were accepted as filed.

For the Company's other domestic and international affiliates, examinations of tax returns for certain prior tax years had not been completed as of December 31, 2019; however, the Company is not aware of any significant claims. Therefore, no material provision for any additional income tax liability has been recorded in the consolidated financial statements.

All amounts in millions of Saudi Riyals unless otherwise stated

## 9. Other assets and receivables

| | 2019 | 2018 |
|---|---|---|
| **Non-current:** | | |
| Contractor advances | **6,768** | 305 |
| Home loans | **5,999** | 5,023 |
| Loans to joint ventures and associates (Note 32(b)) | **4,480** | 2,777 |
| Home ownership construction | **3,160** | 4,088 |
| Lease receivable from associates (Note 32(b)) | **440** | 452 |
| Derivative assets | **–** | 191 |
| Other | **525** | 291 |
| | **21,372** | 13,127 |
| **Current:** | | |
| Employee and other receivables | **4,999** | 3,557 |
| Tax receivables | **2,569** | 2,347 |
| Interest receivable | **1,144** | 171 |
| Prepaid expenses | **1,400** | 2,984 |
| Home loans | **848** | 750 |
| Derivative assets | **331** | 2,610 |
| Investments in securities (Note 10) | **281** | 558 |
| Rig mobilization fees | **242** | 398 |
| Assets held for sale | **81** | 81 |
| Receivables from joint ventures and associates (Note 32(b)) | **15** | 71 |
| Other | **199** | 248 |
| | **12,109** | 13,775 |

**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 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Gross amounts receivable | **9,317** | 8,470 |
| Less: | | |
| Discount | **(1,610)** | (1,868) |
| Allowance for doubtful home loans | **(536)** | (480) |
| Subsidies | **(324)** | (349) |
| Net amounts receivable | **6,847** | 5,773 |
| **Current** | **(848)** | (750) |
| **Non-current** | **5,999** | 5,023 |

## 10. Investments in securities

| | 2019 | 2018 |
|---|---|---|
| **January 1** | **17,772** | 19,142 |
| Acquisitions | **–** | 11 |
| Net additions | **889** | 490 |
| Net unrealized fair value gain/(loss) | **1,598** | (1,871) |
| Net unrealized foreign currency loss | **(22)** | – |
| **December 31** | **20,237** | 17,772 |
| **Current (Note 9)** | **(281)** | (558) |
| **Non-current** | **19,956** | 17,214 |

Net additions include unsettled transactions of SAR 21 at December 31, 2019 (2018: SAR (125)). Investments in securities are carried at fair value.

All amounts in millions of Saudi Riyals unless otherwise stated

## 10. Investments in securities continued

The components of Investments in securities are as follows:

| | 2019 | |
|---|---|---|
| | **Percentage ownership** | **Carrying amount as of December 31** |
| **Equity investments classified as FVOCI:** | | |
| **Equity investments – listed securities:** | | |
| Saudi Electricity Company ("SEC") | **6.9%** | **5,835** |
| Idemitsu Kosan Co., Ltd. ("Idemitsu") | **7.7%** | **2,411** |
| **Equity investments – unlisted securities:** | | |
| Arab Petroleum Pipeline Company ("Sumed") | **15.0%** | **817** |
| Industrialization & Energy Services Company ("TAQA") | **4.6%** | **270** |
| Daehan Oil Pipeline Corporation ("Daehan") | **8.9%** | **157** |
| **Investments in debt securities classified as FVOCI:** | | |
| USD debt securities with fixed interest rates ranging from 0.7% to 8.8% and maturity dates between January 2020 and September 2057 | | **3,840** |
| USD debt securities with variable interest rates and maturity dates between January 2020 and October 2069 | | **724** |
| | | **14,054** |
| **Equity investments classified as FVPL:** | | |
| Listed securities – mutual and hedge funds | | **4,796** |
| Unlisted securities | | **1,387** |
| | | **20,237** |
| **Current portion (Note 9)** | | **(281)** |
| **Non-current** | | **19,956** |

| | 2018 | |
|---|---|---|
| | Percentage ownership | Carrying amount as of December 31 |
| **Equity investments classified as FVOCI:** | | |
| **Equity investments – listed securities:** | | |
| Saudi Electricity Company ("SEC") | 6.9% | 4,369 |
| Showa Shell Sekiyu K.K. ("Showa Shell") | 15.1% | 2,955 |
| **Equity investments – unlisted securities:** | | |
| Arab Petroleum Pipeline Company ("Sumed") | 15.0% | 824 |
| Industrialization & Energy Services Company ("TAQA") | 4.6% | 315 |
| Daehan Oil Pipeline Corporation ("Daehan") | 8.9% | 154 |
| **Investments in debt securities classified as FVOCI:** | | |
| USD debt securities with fixed interest rates ranging from 0.7% to 8.8% and maturity dates between January 2019 and February 2051 | | 3,338 |
| USD debt securities with variable interest rates and maturity dates between January 2019 and October 2068 | | 589 |
| | | 12,544 |
| **Equity investments classified as FVPL:** | | |
| Listed securities – mutual and hedge funds | | 4,189 |
| Unlisted securities | | 1,039 |
| | | 17,772 |
| **Current portion (Note 9)** | | (558) |
| **Non-current** | | 17,214 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 10. Investments in securities continued

On April 1, 2019, Saudi Aramco received 23.1 million common shares of Idemitsu in exchange for its shareholding of 56.4 million common shares of Showa Shell Sekiyu, K.K. ("Showa Shell"). As a result of this transaction, Saudi Aramco's interest in Idemitsu is 7.7% of Idemitsu's total common shares, which does not meet the requirement for significant influence. The investment in Idemitsu in the amount of SAR 2,411 at December 31, 2019 is accounted for at fair value through other comprehensive income.

Equity investments designated at FVOCI are not held for trading. Instead they are held for medium to long-term strategic purposes. Accordingly, management has elected to designate these equity investments at FVOCI as recognizing short-term fluctuations in these investments' fair value in net income would not be consistent with Saudi Aramco's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

The fair value of Sumed is based on expected cash flows discounted using a rate based on market interest rates and a risk premium specific to the unlisted security which was 8.0% and 10.6% at December 31, 2019 and 2018, 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, 2019 range from AAA to BB (2018: AAA to BB) as set out by internationally recognized credit rating agencies.

## 11. Inventories

| | **2019** | 2018 |
|---|---|---|
| Crude oil, refined products and chemicals | **35,839** | 37,241 |
| Materials and supplies – net | **6,595** | 6,130 |
| Natural gas liquids and other | **173** | 209 |
| | **42,607** | 43,580 |

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

| | **2019** | 2018 |
|---|---|---|
| **Balance, January 1** | **2,088** | 1,911 |
| Net movement in allowance | **(91)** | 177 |
| **Balance, December 31** | **1,997** | 2,088 |

## 12. Trade receivables

Trade receivables from export and local sales are denominated primarily in USD and SAR, respectively.

The components of trade receivables are as follows:

| | **2019** | 2018 |
|---|---|---|
| Arising from export and local sales at international prices | **86,058** | 81,662 |
| Arising from local sales at Kingdom regulated prices | **8,322** | 12,995 |
| | **94,380** | 94,657 |
| Less: Loss allowance | **(854)** | (839) |
| | **93,526** | 93,818 |

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 (Note 3(d)) 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.

All amounts in millions of Saudi Riyals unless otherwise stated

## 12. Trade receivables continued

The movement of the allowance for trade receivables related to past due sales is as follows:

| | 2019 | 2018 |
|---|---|---|
| **January 1** | **839** | 856 |
| Net movement in allowance | **15** | (17) |
| **December 31** | **854** | 839 |

## 13. Due from the Government

| | 2019 | 2018 |
|---|---|---|
| Other income related to sales (Note 2(y)) | **28,670** | 35,267 |
| Government guarantee (Note 2(n)) | **7,189** | 12,872 |
| Other | **922** | 725 |
| Note 32(b) | **36,781** | 48,864 |

## 14. Short-term investments

| | 2019 | 2018 |
|---|---|---|
| USD time deposits | **42,585** | – |
| USD Murabaha time deposits (Shari'a compliant) | **1,875** | – |
| South Korean Won time deposits | **875** | 154 |
| SAR time deposits | **132** | 40 |
| | **45,467** | 194 |

## 15. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| Cash at bank and in hand | **45,063** | 31,015 |
| USD time deposits | **119,031** | 146,886 |
| USD Murabaha time deposits (Shari'a compliant) | **2,570** | 1,440 |
| SAR time deposits | **4,959** | 1,277 |
| SAR repurchase agreements | **2,800** | 328 |
| SAR Murabaha time deposits (Shari'a compliant) | **2,369** | – |
| South Korean Won time deposits | **914** | 2,206 |
| | **177,706** | 183,152 |

## 16. Treasury shares

On December 11, 2019, the Company acquired 117.2 million ordinary shares from the Government for cash consideration of SAR 3,750, which continue to be held at December 31, 2019 (2018: nil). These shares are held by the Company as treasury shares for the purposes of issuing them to the Company's employees upon the vesting of the grant award (Note 17) and any other employee share plans that the Company may adopt in the future.

## 17. Share-based compensation

The Company recognized the following share-based compensation expense in the Consolidated Statement of Income, as an employee benefit expense, for the year ended December 31, 2019.

| | **2019** | 2018 |
|---|---|---|
| Equity-settled | **32** | – |
| Cash-settled | **1** | – |
| | **33** | – |

This share-based compensation relates to a grant of ordinary shares awarded in December 2019 to the Company's eligible employees under the plan terms of the grant.

The grant is subject to a 12-month vesting period from its grant date and is subject to a service condition during the vesting period, except for certain qualifying leavers. The grant will be settled with the employees in shares on vesting, except for certain qualifying employees who will receive cash settlement.

The fair value of the grant was determined by reference to the market value of the Company's ordinary shares on the date of grant for equity-settled awards and at the balance sheet date for cash-settled awards. The participants in the grant are entitled to dividend equivalents, if dividends are declared to ordinary shareholders, during the vesting period. Such dividend equivalents will be paid in cash on vesting of the grant or upon separation for qualifying leavers. Accordingly, no adjustment for expected dividends during the vesting period was made in determining the fair value of the grant.

The number of shares and weighted average fair value per share ("WAFV"), under the grant, granted during the year were:

| | **2019** | |
|---|---|---|
| | **Number of shares (in millions)** | **WAFV (SAR)** |
| Grant | **16** | **35.20** |

At December 31, 2019, the total carrying amount of the liabilities in respect of the cash settlement elements of the grant was SAR 2 (2018: nil). There were no outstanding vested awards at December 31, 2019 (2018: nil).

## 18. Other reserves

| | | | | | | **Share of other comprehensive income (loss) of joint ventures and associates** | | |
|---|---|---|---|---|---|---|---|---|
| | **Currency translation differences** | **Investments in securities at FVOCI** | **Post-employment benefit obligations** | **Share-based payment reserve** | **Cash flow hedges and other** | **Post-employment benefit obligations and other** | **Foreign currency translation gains (losses)** | **Total** |
| **January 1, 2018** | 798 | 4,492 | – | – | (105) | (153) | 638 | 5,670 |
| 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 |
| **December 31, 2018** | **129** | **2,919** | **–** | **–** | **(74)** | **4** | **198** | **3,176** |
| Current period change | **(1,027)** | **1,517** | **–** | **31** | **(353)** | **(480)** | **(7)** | **(319)** |
| Remeasurement (loss)/gain | **–** | **(539)** | **3,154** | **–** | **–** | **2** | **–** | **2,617** |
| Transfer to retained earnings | **–** | **–** | **(2,178)** | **–** | **–** | **(2)** | **–** | **(2,180)** |
| Tax effect | **–** | **(552)** | **(990)** | **–** | **–** | **–** | **–** | **(1,542)** |
| Less: amounts related to non-controlling interests | **313** | **(3)** | **14** | **–** | **–** | **–** | **–** | **324** |
| **December 31, 2019** | **(585)** | **3,342** | **–** | **31** | **(427)** | **(476)** | **191** | **2,076** |

All amounts in millions of Saudi Riyals unless otherwise stated

## 19. Borrowings

| | 2019 | 2018 |
|---|---|---|
| **Non-current:** | | |
| Borrowings | **39,957** | 25,934 |
| Debentures | **60,957** | 17,014 |
| Sukuk (Shari'a compliant) | **12,649** | 12,821 |
| Lease liabilities (Note 2(c)(i)) | **33,831** | 12,329 |
| Other[1] | **3,296** | 3,231 |
| | **150,690** | 71,329 |
| **Current:** | | |
| Short-term bank financing | **12,660** | 23,174 |
| Borrowings | **4,957** | 5,906 |
| Sukuk (Shari'a compliant) | **175** | 180 |
| Lease liabilities (Note 2(c)(i)) | **7,103** | 729 |
| | **24,895** | 29,989 |

| | 2019 | 2018 |
|---|---|---|
| **Finance costs:** | | |
| Conventional borrowing | **3,144** | 1,576 |
| Lease liabilities | **1,790** | 480 |
| Shari'a compliant financial instruments | **652** | 593 |
| Unwinding of discount (Note 21) | **440** | 310 |
| | **6,026** | 2,959 |

1. Other borrowings comprise 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 38,074 (2018: SAR 39,699). 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:

| | | Total facility | | Total undrawn | |
|---|---|---|---|---|---|
| | Note | 2019 | 2018 | 2019 | 2018 |
| **Conventional facilities:** | | | | | |
| Revolving credit facilities | a | **49,350** | 47,677 | **46,489** | 47,677 |
| Commercial and other | b | **41,576** | 25,218 | **4,249** | 3,263 |
| Short-term borrowings | c | **25,500** | 33,840 | **15,698** | 10,928 |
| Export credit agencies | d | **6,354** | 13,854 | **–** | 7,500 |
| Public Investment Fund | e | **4,594** | 4,594 | **–** | – |
| **Shari'a compliant facilities:** | | | | | |
| Sukuk | a | **39,844** | 39,844 | **26,250** | 26,250 |
| Murabaha | b | **3,750** | 3,750 | **–** | – |
| Saudi Industrial Development Fund | c | **3,248** | 3,248 | **–** | – |
| Ijarah/Procurement | d | **1,811** | 2,528 | **–** | – |
| Wakala | e | **345** | 821 | **–** | – |
| | | **176,372** | 175,374 | **92,686** | 95,618 |

## 19. Borrowings continued

### Conventional facilities

**(a) Revolving credit facilities**

At December 31, 2019, Saudi Aramco held facilities that total SAR 49,350 (2018: SAR 47,677) consisting of:

(i) The Company maintains USD denominated facilities comprising a conventional five-year facility equivalent to SAR 22,500 ($6,000) and a 364-day facility equivalent to SAR 3,750 ($1,000) along with SAR denominated Islamic Murabaha facilities comprising a five-year facility of SAR 7,500 and a 364-day facility of SAR 3,750. The facilities were established in March 2015 and were extended for two years in 2019 and will mature in March 2022. 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 11,850 (2018: SAR 10,177), consisting of revolving credit facilities of SAR 9,056 ($2,415), and a letter of credit facility of SAR 2,794 ($745) for working capital requirements and to support trading activities. The facilities are expected to be renewed in 2020 and 2022. The remaining revolving credit facilities are executed with a group of foreign and domestic banks for general corporate purposes and working capital requirements.

**(b) 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-seven installments on a semi-annual basis from June 15, 2014 to December 21, 2034. Commission is payable on amounts drawn that are primarily calculated at a market rate plus a margin.

In 2019, Saudi Aramco refinanced an existing commercial facility having a balance of SAR 2,818 repayable to December 20, 2025. Under the refinancing agreement, the facility of SAR 3,105 is repayable in seven installments starting June 20, 2026 to June 20, 2029. Commission is payable on amounts drawn that are primarily calculated at a market rate plus a margin starting June 20, 2020.

**(c) Short-term borrowings**

(i) On December 18, 2019, Saudi Aramco refinanced certain short-term bank financing through long-term project financing with 21 commercial banks and 6 export credit agencies. These long-term facilities were established in the amount of SAR 17,438 and payable in twenty-seven installments on a semi-annual basis commencing on December 2021 to December 2034. Commission is payable on amounts drawn and calculated at market rate plus margin.

(ii) Saudi Aramco has facilities with a number of banks for short-term borrowing with each borrowing less than one year and which incur interest at market rates plus a margin.

**(d) Export credit agencies**

(i) UK Export Finance facility

On October 11, 2017, Saudi Aramco entered into a USD denominated facility equivalent to SAR 7,500 ($2,000) with five commercial banks which is guaranteed by UK Export Finance. The facility expired during 2019 and no portion was drawn down as of the expiration date.

(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.

**(e) 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.

### Shari'a compliant facilities

**(a) Sukuk**

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.

All amounts in millions of Saudi Riyals unless otherwise stated

## 19. Borrowings continued

**(b) Murabaha**

Saudi Aramco has a Murabaha Shari'a compliant Islamic facility. The facility is repayable in ten equal installments of 7% on a semi-annual basis from April 20, 2018 to October 20, 2022, and a 30% balloon payment on April 20, 2023. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

**(c) Saudi Industrial Development Fund**

Saudi Aramco has facility agreements with the Saudi Industrial Development Fund. The facilities bear no periodic financial charges and borrowings are repayable in fourteen to twenty-two 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 30, 2030).

**(d) Ijarah/Procurement**

Saudi Aramco had Procurement Shari'a compliant Islamic facility agreements with a number of banks. The facilities were repayable in twenty-three unequal installments on a semi-annual basis commencing December 20, 2014 to December 20, 2025. In 2019, Saudi Aramco refinanced the balance of the procurement facility with an Ijarah Shari'a compliant facility repayable in seven unequal installments on a semi-annual basis starting June 20, 2026 to June 20, 2029. Commission is payable on amounts drawn that are primarily calculated at a market rate plus a margin starting June 20, 2020.

**(e) Wakala**

Saudi Aramco has Shari'a compliant Islamic facility agreements with two lenders. The facilities utilize a Wakala financing structure which is an agency arrangement.

In 2019, Saudi Aramco refinanced the Wakala Shari'a compliant Islamic facilities. The facilities were repayable in twenty-three unequal installments on a semi-annual basis commencing December 20, 2014 to December 20, 2025. In 2019, Saudi Aramco refinanced the balance of the facility to be repayable in seven unequal installments on a semi-annual basis starting June 20, 2026 to June 20, 2029. Commission is payable on amounts drawn that are primarily calculated at a market rate plus a margin starting June 20, 2020.

At the Consolidated Balance Sheet date, the carrying values of Saudi Aramco's non-current borrowings approximate their fair values.

The carrying amounts of non-current borrowings, excluding lease liabilities, at December 31 are as follows:

| | **2019** | 2018 |
|---|---|---|
| **Conventional facilities:** | | |
| Commercial and other | **32,996** | 16,972 |
| Export credit agencies | **3,743** | 4,230 |
| Public Investment Fund (Note 32(b)) | **2,880** | 3,341 |
| Other | **3,300** | 3,231 |
| **Shari'a compliant facilities:** | | |
| Sukuk | **12,825** | 13,009 |
| Saudi Industrial Development Fund (Note 32(b)) | **2,486** | 2,778 |
| Ijarah/Procurement | **1,811** | 1,901 |
| Murabaha | **1,084** | 2,456 |
| Wakala | **345** | 615 |
| | **61,470** | 48,533 |
| Less: unamortized transaction costs | **(436)** | (461) |
| | **61,034** | 48,072 |
| Debentures denominated in USD | **52,283** | 8,479 |
| Debentures denominated in Korean Won | **9,206** | 8,535 |
| Less: unamortized transaction costs | **(532)** | – |
| | **121,991** | 65,086 |
| Less: current portion | **(5,132)** | (6,086) |
| Non-current portion | **116,859** | 59,000 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 19. Borrowings continued

Movements in unamortized transaction costs are as follows:

| | 2019 | 2018 |
|---|---|---|
| **January 1** | **461** | 364 |
| Additional transaction costs incurred | **769** | 157 |
| Less: amortization | **(262)** | (60) |
| **December 31** | **968** | 461 |

### Debentures

(i) Certain debentures denominated in USD are issued in capital markets. Interest rates are fixed and variable with maturities that range between 2027 and 2049.

(ii) Debentures denominated in Korean Won are issued in capital markets. Interest rates range from 1.65% to 3.53% with maturities beginning in 2020 through 2029.

(iii) On April 16, 2019, the Company issued five tranches of USD denominated unsecured notes aggregating equivalent to SAR 45,000 ($12,000) and consisting of three-year maturities for SAR 3,750 ($1,000) with a coupon rate of 2.75%, five-year maturities for SAR 7,500 ($2,000) with a coupon rate of 2.875%, ten-year maturities for SAR 11,250 ($3,000) with a coupon rate of 3.5%, twenty-year maturities for SAR 11,250 ($3,000) with a coupon rate of 4.25%, and thirty-year maturities for SAR 11,250 ($3,000) with a coupon rate of 4.375%. The notes were issued and sold in accordance with Rule 144A/Regulation S under the U.S. Securities Act of 1933, as amended. Interest is payable semi-annually in arrears on April 16 and October 16. The notes are listed on the London Stock Exchange's Regulated Market and the proceeds were for general corporate purposes. At initial recognition, the Company recorded an amount of SAR 44,460 ($11,856) for the issuance proceeds, net of discounts and estimated transaction costs. Discounts and transaction costs are amortized using the effective interest method and are reflected as finance costs in the Consolidated Statement of Income.

### Lease liabilities

Covenants of certain long-term financing facilities require Saudi Aramco to maintain defined financial and other conditions. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The lessor has ownership of the assets during the term of the contract and is responsible for the operation, insurance and maintenance of the assets until termination of the underlying agreements. For certain leases, the lessor shall transfer its rights, title and interest in the assets to the lessee on the last day of the agreements: for others, there are no further obligations on completion of agreements. Performance guarantees are provided by the lessor under the terms of the agreements.

The total cash outflow for leases for the year ended December 31, 2019 was SAR 7,751. Expenses relating to short-term and low value leases were recognized in the Consolidated Statement of Income for the year ended December 31, 2019 and amounted to SAR 2,558 and SAR 540, respectively.

Maturities of long-term borrowings and leases are as follows:

| | No later than one year | Later than one year and no later than five years | Later than five years | Total contractual amount | Total carrying amount |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Borrowings | **8,165** | **51,383** | **104,202** | **163,750** | **122,959** |
| Leases | **8,405** | **21,867** | **30,067** | **60,339** | **40,934** |
| | **16,570** | **73,250** | **134,269** | **224,089** | **163,893** |
| 2018 | | | | | |
| Borrowings | 6,946 | 28,931 | 41,163 | 77,040 | 65,547 |
| Leases | 1,655 | 5,601 | 15,711 | 22,967 | 13,058 |
| | 8,601 | 34,532 | 56,874 | 100,007 | 78,605 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 19. Borrowings continued

The movement of borrowings is as follows:

| | Long-term borrowings | Short-term borrowings | Lease liabilities | Total liabilities from financing activities |
|---|---|---|---|---|
| **January 1, 2018** | 67,787 | 4,857 | 4,954 | 77,598 |
| Cash flows | (3,083) | 3,986 | (339) | 564 |
| Non-cash changes: | | | | |
| Acquisitions (Note 33) | – | 14,331 | 248 | 14,579 |
| Finance lease additions (Note 25) | – | – | 8,195 | 8,195 |
| Foreign exchange adjustment | (540) | – | – | (540) |
| Others | 922 | – | – | 922 |
| **December 31, 2018** | 65,086 | 23,174 | 13,058 | 101,318 |
| Cash flows | **14,011** | **(11,662)** | **(7,751)** | **(5,402)** |
| Debentures | **44,460** | **–** | **–** | **44,460** |
| Non-cash changes: | | | | |
| Acquisitions (Note 33) | **–** | **–** | **94** | **94** |
| Lease liabilities on adoption of IFRS 16 (Note 2(c)(i)) | **–** | **–** | **26,051** | **26,051** |
| Lease additions (Note 25) | **–** | **–** | **9,670** | **9,670** |
| Foreign exchange adjustment | **(454)** | **27** | **8** | **(419)** |
| Others | **(1,112)** | **1,121** | **(196)** | **(187)** |
| **December 31, 2019** | **121,991** | **12,660** | **40,934** | **175,585** |

## 20. Post-employment benefit obligations

Saudi Aramco sponsors several funded and unfunded defined benefit pension plans and other post-employment benefit plans that provide pension, severance, death, medical and/or other benefits to substantially all of its employees primarily in Saudi Arabia. Majority of the defined benefit plans for Saudi Arabia based employees are governed under the Kingdom of Saudi Arabia employment law, Pension Protection Act ("PPA") rules of the USA, and Company policies. Benefits to employees of group companies are provided based on local regulations and practices of the respective jurisdiction.

Retirement benefits for defined benefit pension plans are paid, primarily, in the form of lump sum payments upon retirement based on final salary and length of service. Other post-employment benefits such as medical are used to cover retired employees and eligible dependents of retirees for medical services in line with the plan policy documents.

At December 31, the net liability recognized for employee defined benefit plans in the Consolidated Balance Sheet is as follows:

| | **2019** | 2018 |
|---|---|---|
| Pension plans | **(1,600)** | (1,080) |
| Medical and other post-employment benefit plans | **22,774** | 24,289 |
| **Net benefit liability** | **21,174** | 23,209 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 20. Post-employment benefit obligations continued

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Net benefit obligation by funding:** | | | | |
| Present value of funded obligations | **59,824** | 52,023 | **87,090** | 78,548 |
| Fair value of plan assets | **(67,156)** | (58,376) | **(73,136)** | (60,758) |
| **Benefit (surplus)/deficit** | **(7,332)** | (6,353) | **13,954** | 17,790 |
| Present value of unfunded obligations | **5,732** | 5,273 | **8,820** | 6,499 |
| **Net benefit (asset)/liability** | **(1,600)** | (1,080) | **22,774** | 24,289 |
| **Change in benefit obligations:** | | | | |
| Benefit obligations, January 1 | **57,296** | 54,837 | **85,047** | 98,741 |
| Current service cost | **3,004** | 3,270 | **1,924** | 2,303 |
| Interest cost | **2,453** | 2,010 | **3,720** | 3,698 |
| Past service credit | **(8)** | (4) | **–** | (1,016) |
| Remeasurement | **6,481** | (3,280) | **6,754** | (17,431) |
| Plan participants' contribution | **105** | 113 | **–** | – |
| Benefits paid | **(3,563)** | (3,330) | **(1,804)** | (1,725) |
| Settlements | **(274)** | – | **–** | – |
| Acquisitions (Note 33) | **131** | 3,668 | **94** | 109 |
| Foreign currency translation and other | **(69)** | 12 | **175** | 368 |
| **Benefit obligations, December 31** | **65,556** | 57,296 | **95,910** | 85,047 |
| **Change in plan assets:** | | | | |
| Fair value of plan assets January 1 | **(58,376)** | (53,726) | **(60,758)** | (61,661) |
| Interest income | **(2,475)** | (1,905) | **(2,696)** | (2,378) |
| Remeasurement | **(6,604)** | 195 | **(9,785)** | 6,960 |
| Employer contributions | **(3,480)** | (3,330) | **(1,699)** | (5,404) |
| Benefits paid | **3,563** | 3,330 | **1,804** | 1,725 |
| Settlements | **274** | – | **–** | – |
| Acquisitions (Note 33) | **(56)** | (3,023) | **–** | – |
| Foreign currency translation and other | **(2)** | 83 | **(2)** | – |
| **Fair value of plan assets, December 31** | **(67,156)** | (58,376) | **(73,136)** | (60,758) |
| **Net benefit (asset)/liability at December 31** | **(1,600)** | (1,080) | **22,774** | 24,289 |

The weighted average duration of the pension benefit obligations is 13 years at December 31, 2019 and 11 years at December 31, 2018. The weighted average duration of the other benefit obligations is 21 years at December 31, 2019 and 19 years at December 31, 2018.

All amounts in millions of Saudi Riyals unless otherwise stated

## 20. Post-employment benefit obligations continued

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:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Amounts recognized in net income:** | | | | |
| Current service cost | **3,004** | 3,270 | **1,924** | 2,303 |
| Past service credit | **(8)** | (4) | **–** | (1,016) |
| Net interest (income)/cost | **(22)** | 105 | **1,024** | 1,320 |
| Other | **19** | (11) | **98** | 360 |
| | **2,993** | 3,360 | **3,046** | 2,967 |
| **Amounts recognized in other comprehensive income:** | | | | |
| Losses (gains) from changes in demographic assumptions | **35** | 83 | **154** | (19) |
| Losses (gains) from changes in financial assumptions | **6,544** | (4,316) | **14,633** | (12,578) |
| (Gains) losses from changes in experience adjustments | **(98)** | 953 | **(8,033)** | (4,834) |
| (Returns) losses on plan assets (excluding interest income) | **(6,604)** | 195 | **(9,785)** | 6,960 |
| | **(123)** | (3,085) | **(3,031)** | (10,471) |
| Net defined benefit loss (gain) before income taxes | **2,870** | 275 | **15** | (7,504) |

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:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Discount rate | **3.2%** | 4.3% | **3.6%** | 4.4% |
| Salary growth rate | **5.5%** | 5.5% | **–** | – |
| Annual average medical claim cost, in whole SAR | | | **22,110** | 22,350 |
| Health care participation rate | | | **90.0%** | 90.0% |
| Assumed health care trend rates: | | | | |
| Cost-trend rate | | | **6.0%** | 7.0% |
| Rate to which cost-trend is to decline | | | **5.0%** | 5.0% |
| Year that the rate reaches the ultimate rate | | | **2021** | 2021 |

All 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 calculate 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 USA 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:

| | Saudi Plans | | U.S. Plans | |
|---|---|---|---|---|
| Life expectancy at age: | Male | Female | Male | Female |
| 50 | 31.6 | 34.7 | 33.9 | 35.9 |
| 60 | 23.0 | 25.7 | 24.9 | 26.7 |
| 60 (currently aged 40) | 23.0 | 25.7 | 26.7 | 28.4 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 20. Post-employment benefit obligations continued

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 from one another.

| | Change in assumption | Impact on obligation | 2019 | 2018 |
|---|---|---|---|---|
| Ultimate health care cost-trend rates | Increase by 0.5% | Increase by | **9,926** | 8,066 |
| | Decrease by 0.5% | Decrease by | **(8,659)** | (7,095) |
| Discount rate other benefits | Increase by 0.5% | Decrease by | **(9,195)** | (7,463) |
| | Decrease by 0.5% | Increase by | **10,669** | 8,569 |
| Discount rate pension benefits | Increase by 0.5% | Decrease by | **(3,889)** | (3,011) |
| | Decrease by 0.5% | Increase by | **4,331** | 3,315 |
| Salary growth rate | Increase by 0.5% | Increase by | **1,890** | 1,433 |
| | Decrease by 0.5% | Decrease by | **(2,201)** | (1,646) |
| Annual average medical claim cost | Increase by 5% | Increase by | **4,463** | 3,904 |
| | Decrease by 5% | Decrease by | **(4,463)** | (3,896) |
| Life expectancy | Increase by 1 year | Increase by | **4,245** | 3,371 |
| | Decrease by 1 year | Decrease by | **(4,234)** | (3,383) |
| Health care participation rate | Increase by 5% | Increase by | **1,706** | 1,560 |
| | Decrease by 5% | Decrease by | **(1,751)** | (1,635) |

Plan assets consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Cash | **2,670** | 3,008 |
| Time deposits | **–** | 68 |
| Equity instruments | **39,199** | 34,433 |
| Investment funds | **48,845** | 42,045 |
| Bonds | **48,202** | 38,520 |
| Sukuk (Shari'a compliant) | **1,376** | 1,060 |
| | **140,292** | 119,134 |

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. Saudi Aramco has no rights to plan assets. 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 Plans defined benefit obligations and solely to Plan's with defined benefit obligations exceeding the value of assets held.

All amounts in millions of Saudi Riyals unless otherwise stated

## 20. Post-employment benefit obligations continued

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, 38% (2018: 36%) equity instruments, 32% (2018: 32%) debt instruments, and 30% (2018: 32%) alternative assets. Inflation risk is partially offset by equities inflation and life expectancy risk is borne by Saudi Aramco.

Employer contributions to defined benefit plans are estimated to be SAR 5,997 in 2020. 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 pays annual contributions equal to the cost of accrual on a Board approved cash funding basis. Asset outperformance is expected to meet the shortfall between assets and the assessed liabilities within a reasonable period. 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 using PPA rules. Other plans follow local regulation or contractual obligations to meet minimum funding requirements.

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 1,028 and SAR 926 for the years ended December 31, 2019 and 2018, respectively (Note 30).

## 21. Provisions

| | Asset retirement | Environmental | Other | Total |
|---|---|---|---|---|
| **January 1, 2018** | 12,134 | 796 | 1,067 | 13,997 |
| Revision to estimate | 886 | – | (234) | 652 |
| Additional provisions | 418 | 177 | 308 | 903 |
| Unwinding of discount (Note 19) | 320 | (10) | – | 310 |
| Amounts charged against provisions | (51) | (114) | (91) | (256) |
| **December 31, 2018** | 13,707 | 849 | 1,050 | 15,606 |
| Revision to estimate | **(748)** | **45** | **(154)** | **(857)** |
| Additional provisions | **392** | **106** | **467** | **965** |
| Unwinding of discount (Note 19) | **412** | **28** | **–** | **440** |
| Amounts charged against provisions | **(47)** | **(91)** | **(31)** | **(169)** |
| **December 31, 2019** | **13,716** | **937** | **1,332** | **15,985** |

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.

## 22. Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| Trade payables | **38,629** | 32,897 |
| Accrued materials and services | **24,544** | 26,393 |
| Amounts due to related parties (Note 32(b)) | **7,587** | 6,761 |
| Other accruals | **7,471** | 6,235 |
| | **78,231** | 72,286 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 23. Revenue

| | 2019 | 2018 |
|---|---|---|
| Revenue from contracts with customers | **1,096,444** | 1,192,965 |
| Movement between provisional and final prices | **5,650** | (2,270) |
| Other revenue | **3,602** | 3,681 |
| | **1,105,696** | 1,194,376 |
| Other revenue: | | |
| Services provided to: | | |
| Government agencies (Note 32(a)) | **1,058** | 731 |
| Third parties | **510** | 626 |
| Joint ventures and associates (Note 32(a)) | **266** | 311 |
| Freight | **161** | 101 |
| Other | **1,607** | 1,912 |
| | **3,602** | 3,681 |

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 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:

| | **2019** | | | |
|---|---|---|---|---|
| | **Upstream** | **Downstream** | **Corporate** | **Total** |
| Crude oil | **645,499** | **22,049** | **–** | **667,548** |
| Refined and chemical products | **–** | **369,478** | **–** | **369,478** |
| Natural gas and NGLs | **57,649** | **1,769** | **–** | **59,418** |
| **Revenue from contracts with customers** | **703,148** | **393,296** | **–** | **1,096,444** |
| Movement between provisional and final prices | **5,405** | **245** | **–** | **5,650** |
| Other revenue | **697** | **1,558** | **1,347** | **3,602** |
| **External revenue** | **709,250** | **395,099** | **1,347** | **1,105,696** |

| | 2018 | | | |
|---|---|---|---|---|
| | Upstream | Downstream | Corporate | Total |
| Crude oil | 720,010 | 8,268 | – | 728,278 |
| Refined and chemical products | – | 392,882 | – | 392,882 |
| Natural gas and NGLs | 69,649 | 2,156 | – | 71,805 |
| **Revenue from contracts with customers** | 789,659 | 403,306 | – | 1,192,965 |
| Movement between provisional and final prices | (1,756) | (514) | – | (2,270) |
| Other revenue | 569 | 1,783 | 1,329 | 3,681 |
| **External revenue** | 788,472 | 404,575 | 1,329 | 1,194,376 |

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

| | 2019 | 2018 |
|---|---|---|
| Crude oil | **2,745** | 1,847 |
| Refined and chemical products | **56,777** | 55,790 |
| Natural gas and NGLs | **15,341** | 16,037 |
| | **74,863** | 73,674 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 24. Finance and other income

| | 2019 | 2018 |
|---|---|---|
| Interest income on time deposits and loans receivable | **5,359** | 2,777 |
| Gain on remeasurement of existing interest in equity investments (Note 33) | **1,278** | 870 |
| Dividend income from investments in securities | **509** | 143 |
| Investment income | **175** | 63 |
| Gain on derivative transactions | **6** | 4 |
| Other | **24** | 8 |
| | **7,351** | 3,865 |

## 25. Non-cash transactions in the Consolidated Statement of Cash Flows

Investing activities during 2019 include additions to right-of-use assets of SAR 9,670 (2018: finance lease assets of SAR 8,195), subordinated shareholder loans and trade receivables with a joint venture that were converted to equity of SAR 1,706 and SAR 1,098 (2018: SAR 1,915 and SAR 583), respectively, and asset retirement provisions of SAR 50 (2018: SAR 1,533).

## 26. Commitments

### (a) Capital commitments

Capital expenditures contracted for but not yet incurred were SAR 154,181 and SAR 90,034 at December 31, 2019 and 2018, respectively. In addition, leases contracted for but not yet commenced were SAR 7,467 at December 31, 2019.

### (b) Operating leases

Prior to the adoption of IFRS 16, Leases, effective January 1, 2019, non-cancellable operating leases on drilling rigs, tankers, real estate, transportation equipment, light industrial equipment and office equipment were classified as operating leases. The leases have varying terms, escalation clauses and renewal rights. Rates are generally fixed at the contract date. The approximate minimum payments on the non-cancellable operating leases at December 31, 2018 were as follows:

| | 2019 | 2018 |
|---|---|---|
| No later than one year | **–** | 8,078 |
| Later than one year and no later than five years | **–** | 15,625 |
| Later than five years | **–** | 11,862 |
| | **–** | 35,565 |

From January 1, 2019, Saudi Aramco has recognized right-of-use assets for these leases, except for short-term and low-value leases. Refer to Note 2(c)(i) and Note 5 for further information.

### (c) IMIC

In 2017, Saudi Aramco Development Company ("SADCO"), a wholly owned subsidiary of the Company, and Lamprell plc ("Lamprell"), Bahri and Korea Shipbuilding and Offshore Engineering ("KSOE"), formerly known as Hyundai Heavy Industries, formed a company, IMIC, in which SADCO owns 50.1%, Lamprell owns 20%, Bahri owns 19.9% and KSOE owns 10%. The principal activities of IMIC 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 partially completed and operational by 2021. SADCO has committed to fund IMIC up to SAR 1,316 through equity contributions. At December 31, 2019, SAR 555 (2018: SAR 555) has been drawn down by IMIC.

### (d) Saudi Aramco Rowan Offshore Drilling Company ("ARO Drilling")

In 2017, SADCO and Rowan Rex Limited formed a company, ARO Drilling (Note 36), to provide offshore drilling services to the Company. In 2018, Mukamala Oil Field Services Limited ("MOFSL") was incorporated as a subsidiary of SADCO and all the investment and related commitments of ARO Drilling were transferred to MOFSL by way of a Novation Agreement. MOFSL has committed to invest SAR 2,494 through equity and shareholder loans, of which SAR 2,453 (2018: SAR 2,453) has been drawn down at December 31, 2019. 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.

## 26. Commitments continued

### (e) Saudi Aramco Nabors Drilling Company ("SANAD")

In 2017, SADCO and Nabors International Netherlands BV formed a company, SANAD (Note 36), to provide onshore drilling services to the Company. In 2018, MOFSL was incorporated as a subsidiary of SADCO and all the investment and related commitments of SANAD were transferred to MOFSL by way of a Novation Agreement. Saudi Aramco has committed to lease 50 onshore rigs over a ten-year period beginning in 2021 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 7), to provide onshore land drilling manufacturing, equipment and services to SANAD and the Middle East and North Africa region. Saudi Aramco committed to invest SAR 225, of which, SAR 9 is invested at December 31, 2019 (2018: nil). 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 past Government directives, the Company expects to sell portions of its equity in Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. (Note 37) through a public offering of shares in Saudi Arabia. Also in order to comply with a past Government directive, Excellent Performance Chemical Company ("EPCC"), a wholly owned subsidiary of the Company, expects to sell portions of its equity in Sadara (Note 27(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 750 over a ten year period ending December 31, 2025 on social responsibility programs. At December 31, 2019, SAR 461 (2018: SAR 641) remains to be spent.

(iii) Saudi Aramco has commitments of SAR 384 (2018: SAR 370) 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 58 (2018: SAR 56) 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.

## 27. 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. In May 2019, Saudi Aramco committed to increase the total financing facility provided to Sadara from SAR 25,125 to SAR 32,035. As of December 31, 2019, SAR 28,362 (2018: 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 of project financing of which approximately SAR 34,009 (2018: SAR 36,566) was outstanding at December 31, 2019. 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 Reliability 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 6,478 (2018: SAR 7,178) was outstanding at December 31, 2019.

With respect to Sadara's fuel and feed-stock allocation, the Company has provided two letters of credit to the Ministry of Energy for SAR 169 (2018: SAR 169) and SAR 225 (2018: SAR 225) to construct epoxy plants and for the development of projects to support conversion industries in the Kingdom, respectively.

All amounts in millions of Saudi Riyals unless otherwise stated

## 27. Contingencies continued

### (b) Petro Rabigh

In March 2015, the two founding shareholders of Petro Rabigh, 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 for which the two shareholders provided guarantees for their equal share of the debt financing until project completion expected in 2020. As of December 31, 2019, SAR 17,909 (2018: SAR 19,380) is outstanding. The external debt financing is expected to provide approximately 50% of total capital requirements of SAR 38,689 (2018: SAR 36,086) 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 with equal share guarantees provided to meet the equity financing requirements until the equity rights offering. The guarantees will continue until July 1, 2020. Petro Rabigh has drawn down SAR 11,250 (2018: SAR 8,888) of this loan as of December 31, 2019.

## 28. 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 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Interest rate swaps | **12,911** | 14,404 |
| Commodity swap contracts | **17,370** | 24,146 |
| Currency forward contracts | **8,452** | 15,821 |
| | **38,733** | 54,371 |

## 29. Purchases

| | **2019** | 2018 |
|---|---|---|
| Refined products and chemicals | **157,438** | 160,045 |
| Crude oil | **67,732** | 41,131 |
| | **225,170** | 201,176 |

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.

## 30. Employee benefit expense

| | **2019** | 2018 |
|---|---|---|
| Salaries and wages | **32,528** | 29,849 |
| Social security costs | **1,967** | 1,804 |
| Post-retirement benefits (Note 20): | | |
| Defined benefit plans | **6,039** | 6,327 |
| Defined contribution plans | **1,028** | 926 |
| Share-based compensation (Note 17) | **33** | – |
| | **41,595** | 38,906 |

All amounts in millions of Saudi Riyals unless otherwise stated

## 31. Payments to the Government by Saudi Arabian Oil Company

| | **2019** | 2018 |
|---|---|---|
| Income taxes (Note 8(c)) | **149,780** | 180,225 |
| Royalties | **170,256** | 213,514 |
| Dividends (Note 34) | **274,388** | 217,500 |

## 32. Related party transactions

### (a) Transactions

| | **2019** | 2018 |
|---|---|---|
| **Joint ventures:** | | |
| Revenue from sales | **7,485** | 4,159 |
| Other revenue (Note 23) | **83** | 30 |
| Interest income | **30** | 49 |
| Purchases | **544** | – |
| Service expenses | **19** | 26 |
| **Associates:** | | |
| Revenue from sales | **36,866** | 39,356 |
| Other revenue (Note 23) | **183** | 281 |
| Interest income | **165** | 113 |
| Purchases | **36,960** | 39,480 |
| Service expenses | **188** | 195 |
| **Government and semi-Government agencies:** | | |
| Revenue from sales | **45,079** | 50,111 |
| Other income related to sales | **131,089** | 152,641 |
| Other revenue (Note 23) | **1,058** | 731 |
| Purchases | **11,606** | 3,394 |
| Service expenses | **409** | 323 |
| Acquisition of treasury shares (Note 16) | **3,750** | – |
| Sale of partial interest in joint venture (Note 7) | **14** | – |

Goods are purchased and sold according to supply agreements in force. Note 27 includes additional information on loans to a joint venture and an associate.

All amounts in millions of Saudi Riyals unless otherwise stated

# 32. Related party transactions continued

## (b) Balances

| | 2019 | 2018 |
|---|---|---|
| **Joint ventures:** | | |
| Other assets and receivables (Note 9) | **1,609** | 4 |
| Trade receivables | **836** | 176 |
| Interest receivable | **30** | – |
| Trade and other payable (Note 22) | **15** | – |
| **Associates:** | | |
| Other assets and receivables (Note 9) | **3,326** | 3,296 |
| Trade receivables | **8,715** | 10,388 |
| Trade and other payables (Note 22) | **4,553** | 4,492 |
| **Government and semi-Government agencies:** | | |
| Trade receivables | **5,985** | 8,764 |
| Due from the Government (Note 13) | **36,781** | 48,864 |
| Trade and other payables (Note 22) | **3,019** | 2,269 |
| Borrowings (Note 19) | **5,366** | 6,119 |

Sales to and receivables from Government and semi-Government agencies are made on specific terms within the relevant regulatory framework in the Kingdom.

## (c) Compensation of key management personnel

Key management personnel of Saudi Aramco included directors and senior executive management. The compensation paid or payable to key management for services is shown below:

| | 2019 | 2018 |
|---|---|---|
| Short-term employee benefits | **63** | 57 |
| Post-employment benefits | **31** | 27 |
| Other long-term benefits | **7** | 10 |
| Termination benefits | **–** | 17 |
| | **101** | 111 |

## (d) Other transactions with key management personnel

Other than as set out in Note 32(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, 2019 (2018: nil).

All amounts in millions of Saudi Riyals unless otherwise stated

# 33. Investments in affiliates

## (a) Investments in subsidiaries

**(i) Saudi Basic Industries Corporation ("SABIC")**

On March 27, 2019, the Company announced that it had entered into a Share Purchase Agreement with the Public Investment Fund ("PIF") to acquire the PIF's 70% equity interest in SABIC for total consideration of SAR 259,125 ($69,100), which is equivalent to SAR 123.39 per share. In February 2020, the Company received final unconditional approval from all remaining jurisdictions in which pre-notification antitrust filings are required. The closing of the proposed transaction remains subject to the remaining customary closing conditions contained in the Share Purchase Agreement. SABIC is headquartered in Riyadh, Saudi Arabia and operates in over 50 countries with approximately 34,000 employees. SABIC produces ethylene, ethylene glycol, methanol, methyl tertiary butyl ether ("MTBE"), polyethylene and engineering plastics and their derivatives, among other products. The Company believes that purchasing a majority interest in SABIC will advance its strategy to increase the proportion of petrochemicals production in its Downstream portfolio, capture additional value and support the Company's Downstream growth ambitions. The acquisition will result in the Company obtaining control of SABIC. The Share Purchase Agreement provided that the purchase price for the acquisition would be paid on the closing date in the form of a cash payment equal to 50% of the purchase price (to be adjusted for certain expenses) and a seller loan in an amount equal to 50% of the purchase price. On October 6, 2019, the Company and the PIF agreed to amend the payment terms to provide that, on the closing date, 36% of the purchase price (to be adjusted for certain expenses) will be paid in the form of cash and 64% of the purchase price will be paid in the form of a seller loan. In addition, SAR 9,375 ($2,500) in loan charges will be paid by Saudi Aramco, including a SAR 1,875 ($500) loan charge paid in cash on the closing date. The seller loan will be secured by four separate promissory notes issued by Saudi Aramco in favor of the PIF and the balance of the loan charges will be secured by five additional promissory notes. These amounts will be payable over a period from September 30, 2020 to September 30, 2025 and are currently intended to be paid in a phased manner through cash from operations, external debt financing or a combination thereof.

**(ii) Saudi Aramco Shell Refinery Company**

On September 18, 2019, the Company completed the acquisition of Shell Saudi Arabia Limited's 50% equity interest for cash consideration of SAR 2,366. As a result of this transaction, the Company has become the sole shareholder of the Saudi Aramco Jubail Refinery Company ("SASREF"). SASREF owns and operates a 305,000 barrel per day refinery that includes a hydrocracker unit, a visbreaker unit and a thermal gas-oil unit. Located in the Kingdom in Jubail, the refinery began commercial operations in 1986 and currently produces naphtha, high-sulfur fuel oil, jet fuel and diesel fuel. This acquisition is in line with Saudi Aramco's strategy of expanding its Downstream portfolio, and strengthening its capabilities across the energy value chain. On increasing its ownership, Saudi Aramco remeasured its investment to fair value and recognized a gain of SAR 1,278, which is reflected in the Consolidated Statement of Income within finance and other income.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date. If the acquisition had occurred on January 1, 2019, the consolidated revenue of Saudi Aramco would have been an additional SAR 394 and net income would have been an additional SAR 47. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition occurred on the first day of the accounting period.

The preliminary fair values of identifiable assets and liabilities have been determined by management, assisted by an independent valuer, as part of the purchase price allocation process, which has not been concluded.

The following table summarizes the estimated goodwill and fair values of SASREF's assets and liabilities acquired on September 18, 2019:

| | |
|---|---|
| Cash and cash equivalents | 1,233 |
| Trade accounts receivable and other current assets | 3,938 |
| Inventories | 1,260 |
| Property, plant and equipment | 5,461 |
| Intangible assets | 57 |
| Other non-current assets | 385 |
| Trade and other payables | (6,249) |
| Accrued expenses and other current liabilities | (866) |
| Deferred tax liabilities | (528) |
| Employee benefit obligations | (298) |
| Lease liabilities | (188) |
| **Total identifiable net assets and liabilities at fair value** | **4,205** |
| Goodwill | 527 |
| **Total consideration** | **4,732** |
| Acquisition date fair value of previously held interest | (2,366) |
| **Purchase consideration** | **2,366** |

Acquisition and transaction costs of SAR 2 for the year ended December 31, 2019 were expensed as selling, administrative and general in the Consolidated Statement of Income. The post-acquisition revenue of SAR 39 and net loss of SAR 925 is included in the consolidated statement of comprehensive income.

All amounts in millions of Saudi Riyals unless otherwise stated

## 33. Investments in affiliates continued

**(iii) Investment in Motiva Chemicals LLC ("Motiva Chemicals")**

On October 31, 2019, Motiva Enterprises LLC ("Motiva"), a wholly owned subsidiary of the Company, acquired 100% of the equity interest in Flint Hills Resources Port Arthur LLC which was immediately re-named as Motiva Chemicals. Motiva Chemicals was acquired for total cash consideration of SAR 7,090. Motiva Chemicals owns and operates a chemical plant located in Port Arthur, Texas, comprised of a mixed feed cracker, a cyclohexane unit, a benzene unit, NGL and ethylene pipelines and storage facilities. The acquisition extends Motiva's logistics capabilities, provides an early entry into petrochemicals and creates the opportunity to further improve planned chemicals projects.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date. If the acquisition had occurred on January 1, 2019, the consolidated revenue of Saudi Aramco would have been an additional SAR 2,928 and net loss would have been an additional SAR 28.

Saudi Aramco has engaged an independent valuer in order to determine the fair value of the assets and liabilities of Motiva Chemicals as part of the purchase price allocation, which had not been concluded as at December 31, 2019. The preliminary fair values of the identifiable assets and liabilities of Motiva Chemicals as at the date of acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | 11 |
| Accounts receivable and other assets | 229 |
| Inventories | 266 |
| Property, plant and equipment | 6,263 |
| Intangible assets | 544 |
| Trade and other payables | (184) |
| Post-employment benefit obligations and provisions | (39) |
| **Total identifiable net assets at fair value/purchase consideration** | **7,090** |

Acquisition and transaction costs of SAR 13 were expensed as selling, administrative and general in the Consolidated Statement of Income for the year ended December 31, 2019. The post-acquisition revenue of SAR 372 and net loss of SAR 151 is included in the Consolidated Statement of Comprehensive Income.

**(iv) ARLANXEO Holding B.V. ("ARLANXEO")**

On December 31, 2018, ARLANXEO, previously a joint venture 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 nine 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, previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was remeasured to fair value which resulted in a gain of SAR 870 recognized in finance and other 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. If the acquisition had occurred on January 1, 2018, the consolidated revenue of Saudi Aramco would have been an additional SAR 14,288 and net income would have been reduced by share of net loss of SAR 98. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition occurred on first day of accounting period.

The 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 been concluded.

All amounts in millions of Saudi Riyals unless otherwise stated

## 33. Investments in affiliates continued

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 | (1,055) |
| **Total identifiable net assets at fair value** | **11,616** |
| Non-controlling interest | (53) |
| Acquisition date fair value of previously held interest | (5,813) |
| **Fair value of additional interest acquired on December 31, 2018** | **5,750** |
| Goodwill | 191 |
| Other adjustments | 165 |
| **Net purchase consideration** | **6,106** |

Acquisition and transaction costs of nil and SAR 10 were expensed as selling, administrative and general in the Consolidated Statement of Income for the years ended December 31, 2019 and 2018, respectively.

### (b) Investment in joint operation

On March 28, 2018, Aramco Overseas Holdings Coöperatief U.A. ("AOHC"), a wholly owned subsidiary of The Company, 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 had 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 commercial operations in 2020. Saudi Aramco has performed an assessment of the accounting treatment for these investments under IFRS 11, Joint Arrangements, and determined that the two investments are joint operations.

Saudi Aramco had 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. Based on the valuation, the fair values of the assets and liabilities acquired on March 28, 2018 were 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** | **3,534** |

Acquisition and transaction costs of nil and SAR 128 were expensed as selling, administrative and general in the Consolidated Statement of Income for the years ended December 31, 2019 and 2018, respectively.

All amounts in millions of Saudi Riyals unless otherwise stated

# 33. Investments in affiliates continued

## (c) Investments in joint ventures and associates

**(i) Investment in Tas'helat Marketing Company ("TMC")**

On June 17, 2019, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., each acquired a 50% interest in Tas'helat Marketing Company ("TMC") for a total of SAR 770. TMC operates a network of 270 retail service stations under the "Sahel" brand name and 73 convenience stores across the Kingdom. The two partners, over the next several years, will invest SAR 2,800 in upgrading the existing retail facilities and rebranding an equal number of the retail service stations with the two partners' brand names.

The purchasers have engaged an independent valuer in order to determine the fair value of the assets and liabilities of TMC as part of the purchase price allocation, which had not been concluded as at December 31, 2019.

The preliminary fair values of the identifiable assets and liabilities of TMC as of the date of acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | 26 |
| Accounts receivable and other assets | 328 |
| Inventories | 44 |
| Property, plant and equipment | 362 |
| Intangible assets | 78 |
| Trade and other payables | (28) |
| Borrowings | (128) |
| Post-employment benefit obligations and provisions | (24) |
| Other liabilities | (286) |
| **Total identifiable net assets at fair value** | **372** |
| Saudi Aramco's 50% share | 186 |
| Goodwill | 199 |
| **Purchase consideration** | **385** |

Acquisition and transaction costs of SAR 4 were expensed as selling, administrative, and general in the Consolidated Statement of Income for the year ended December 31, 2019.

**(ii) Hyundai Oilbank**

On December 17, 2019, Aramco Overseas Company B.V. ("AOC"), a wholly owned subsidiary of the Company, acquired a 17% equity interest in Hyundai Oilbank, a subsidiary of Hyundai Heavy Industries Holdings, for SAR 4,414 with an option to acquire an additional 2.9% within five years of the closing date. Hyundai Oilbank is a private oil refining company in South Korea established in 1964. The business portfolio of Hyundai Oilbank and its subsidiaries includes oil refining, base oil, petrochemicals, and a network of gas stations. The investment in Hyundai Oilbank supports Saudi Aramco's Downstream growth strategy of expanding its global footprint in key markets in profitable integrated refining, chemicals and marketing businesses which enable Saudi Aramco to place crude oil and leverage its trading capabilities.

The carrying value of Hyundai Oilbank is recorded as an investment in associate (Note 7). Saudi Aramco has engaged an independent valuer in order to determine the fair values of the assets and liabilities of Hyundai Oilbank as part of the purchase price allocation, which has not yet been concluded. Based on a preliminary purchase price allocation, the fair values of the identifiable assets and liabilities of Hyundai Oilbank as at the date of acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | 1,556 |
| Trade and other receivables | 5,157 |
| Inventories | 8,089 |
| Other assets | 649 |
| Investments in affiliates | 1,913 |
| Property, plant and equipment | 25,781 |
| Trade and other payables | (9,611) |
| Borrowings | (12,758) |
| Other liabilities | (1,684) |
| **Total identifiable net assets at fair value** | **19,092** |
| Non-controlling interest | (1,688) |
| **Total identifiable net assets attributable to equity owners** | **17,404** |
| Saudi Aramco's 17% share | 2,960 |
| Call option | 206 |
| Intangibles and goodwill | 1,248 |
| **Purchase consideration** | **4,414** |

## 33. Investments in affiliates continued

**(iii) Saudi Engines Manufacturing Company ("SEMC")**

On May 19, 2019, Saudi Aramco Development Company ("SADCO"), a wholly owned subsidiary of the Company, Korea Shipbuilding and Offshore Engineering ("KSOE"), and the Saudi Arabian Industrial Investment Company ("Dussur") concluded an agreement to establish an affiliate to form an engine manufacturing and aftersales facility in the Kingdom. SADCO will own 55% of the affiliate, expected to be named Saudi Engines Manufacturing Company ("SEMC"), while KSOE and Dussur will own 30% and 15%, respectively. SADCO is a 25% shareholder of Dussur. Total investment in SEMC will be up to SAR 646 of which SADCO's share will be up to SAR 355. Additionally, under the agreement, KSOE will have the option to sell up to 20% of the total investment in the affiliate for up to SAR 129, representing KSOE's cost, back to SADCO. The option expires on November 19, 2020.

**(iv) Investment in Juniper Ventures of Texas LLC ("Juniper")**

On December 6, 2018, Motiva acquired a fuel retail business for the amount of SAR 331 which was immediately contributed to the formation of the joint venture, 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 values 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 is recorded as an investment in joint ventures (Note 7).

## 34. Dividends

Dividends declared and paid on ordinary shares are as follows:

| | | | SAR per share | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Quarter: | | | | |
| March[1] | **123,750** | 71,250 | **0.62** | 0.37 |
| June | **50,213** | 48,750 | **0.25** | 0.24 |
| September | **50,212** | 48,750 | **0.25** | 0.24 |
| December | **50,213** | 48,750 | **0.25** | 0.24 |
| Total paid (Note 31) | **274,388** | 217,500 | **1.37** | 1.09 |
| Dividend declared in December, paid in January 2020 | **35,475** | – | **0.18** | – |
| Total declared | **309,863** | 217,500 | **1.55** | 1.09 |
| Dividend declared March 12, 2020 | **14,760** | – | **0.07** | – |

1. Out of SAR 123,750 declared in March 2019, SAR 37,500 was paid in April 2019.

The consolidated financial statements do not reflect a dividend to shareholders of SAR 14,760, which was approved in March 2020. This dividend will be deducted from unappropriated retained earnings in the year ending December 31, 2020. A total of SAR 200,873 in dividends were declared in 2019 and 2020 that relate to 2019 results.

## 35. Earnings per share

The following table reflects the net income and number of shares used in the earnings per share calculations:

| | **2019** | 2018 |
|---|---|---|
| Net income attributable to the ordinary shareholders of the Company | **330,816** | 416,196 |
| Weighted average number of ordinary shares (in millions) (Note 2(cc)) | **199,993** | 200,000 |
| Earnings per share for net income attributable to the ordinary shareholders of the Company (in Saudi Riyal) | **1.65** | 2.08 |

Potential ordinary shares during the year ended December 31, 2019 related to employees' share-based compensation in respect of a grant that was awarded to the Company's eligible employees under the plan terms of the grant (Note 17). The grant did not have a significant dilution effect on basic earnings per share for the year ended December 31, 2019. There were no issuances involving potential ordinary shares for the year ended December 31, 2018.

All amounts in millions of Saudi Riyals unless otherwise stated

## 36. Subsidiaries of Saudi Arabian Oil Company

| | Principal business activity | Place of business/ country of incorporation | Conventional financial assets as of December 31, 2019[1,2] | Conventional financial liabilities as of December 31, 2019[2] | Interest income from conventional financial assets for the year ended December 31, 2019[2] |
|---|---|---|---|---|---|
| **A. Wholly owned:** | | | | | |
| Aramco Affiliated Services Company | Support services | USA | **2** | – | – |
| Aramco Asia India Private Limited | Purchasing and other services | India | **7** | **24** | – |
| Aramco Asia Japan K.K. | Purchasing and other services | Japan | **20** | **76** | **2** |
| Aramco Asia Korea Ltd. | Purchasing and other services | South Korea | **36** | **9** | – |
| Aramco Asia Singapore Pte. Ltd. | Purchasing and other services | Singapore | **21** | **59** | – |
| Aramco Associated Company | Aircraft operations | USA | **140** | **538** | **24** |
| Aramco (Beijing) Venture Management Consultant Co. Ltd | Investment | People's Republic of China | – | – | – |
| Aramco Capital Company, LLC | Aircraft leasing | USA | **219** | **1** | **4** |
| Aramco Chemicals Company | Chemicals | Saudi Arabia | **244** | **946** | **4** |
| Aramco Far East (Beijing) Business Services Co., Ltd. | Petrochemical purchasing/ sales and other services | People's Republic of China | **409** | **146** | **5** |
| Aramco Financial Services Company | Financing | USA | **7** | – | – |
| Aramco Gulf Operations Company Ltd. | Production and sale of crude oil | Saudi Arabia | **100** | **1,301** | **3** |
| Aramco Innovations LLC | Research and commercialization | Russia | **13** | – | – |
| Aramco International Company Limited | Support services | British Virgin Islands | – | – | – |
| Aramco Overseas Company Azerbaijan | Support services | Azerbaijan | **3** | **1** | – |
| Aramco Overseas Company B.V. | Purchasing and other services | Netherlands | **11,966** | **1,252** | **240** |
| Aramco Overseas Company Spain, S.L. | Personnel and other support services | Spain | – | – | – |
| Aramco Overseas Company UK, Limited | Personnel and other support services | United Kingdom | – | **18** | – |
| Aramco Overseas Egypt LLC | Personnel and other support services | Egypt | – | – | – |
| Aramco Overseas Malaysia Sdn. Bhd | Personnel and other support services | Malaysia | **13** | **18** | – |
| Aramco Partnerships Company | Support services | USA | – | – | – |
| Aramco Performance Materials LLC | Petrochemical manufacture and sales | USA | **6** | **7** | – |

1. Conventional financial assets comprise cash, time deposits, short term investments and investments in securities.
2. Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.
3. Agreements and constitutive documents provide Saudi Aramco control.

All amounts in millions of Saudi Riyals unless otherwise stated

## 36. Subsidiaries of Saudi Arabian Oil Company continued

| | Principal business activity | Place of business/ country of incorporation | Conventional financial assets as of December 31, 2019[1,2] | Conventional financial liabilities as of December 31, 2019[2] | Interest income from conventional financial assets for the year ended December 31, 2019[2] |
|---|---|---|---|---|---|
| Aramco Services Company | Purchasing, engineering and other services | USA | **286** | **484** | **6** |
| Aramco Shared Benefits Company | Benefit administration | USA | **–** | **–** | **–** |
| Aramco Trading Company (formerly, Saudi Aramco Products Trading Company) | Importing, exporting and trading of crude oil, refined and chemical products | Saudi Arabia | **7,000** | **5,826** | **133** |
| Aramco Trading Fujairah FZE | Importing/exporting refined products | UAE | **3** | **1,453** | **1** |
| Aramco Trading Limited | Importing/exporting refined products | United Kingdom | **107** | **10** | **–** |
| Aramco Trading Singapore PTE-LTD | Marketing and sales support | Singapore | **168** | **1,819** | **5** |
| Aramco Ventures Holdings Limited | Investment | Guernsey | **28** | **–** | **–** |
| Aramco Ventures Investments Limited | Investment | Guernsey | **–** | **–** | **–** |
| ARLANXEO Holding B.V. | Development, manufacture, and marketing of high-performance rubber | Netherlands | **338** | **33** | **7** |
| ARLANXEO Belgium N.V. | | Belgium | **–** | **172** | **–** |
| ARLANXEO Branch Offices B.V | | Netherlands | **4** | **1** | **–** |
| ARLANXEO Brasil S.A. | | Brazil | **170** | **179** | **6** |
| ARLANXEO Canada Inc. | | Canada | **6** | **284** | **–** |
| ARLANXEO Deutschland GmbH | | Germany | **–** | **236** | **–** |
| ARLANXEO Elastomères Frances S.A.S. | | France | **–** | **128** | **–** |
| ARLANXEO Emulsion Rubber France S.A.S. | | France | **–** | **154** | **–** |
| ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd. | | People's Republic of China | **1** | **335** | **–** |
| ARLANXEO Netherlands B.V. | | Netherlands | **14** | **278** | **–** |
| ARLANXEO Singapore Pte. Ltd. | | Singapore | **3** | **484** | **–** |
| ARLANXEO Switzerland S.A. | | Switzerland | **4** | **73** | **–** |
| ARLANXEO USA Holdings Corp. | | USA | **–** | **–** | **–** |
| ARLANXEO USA LLC | | USA | **24** | **196** | **–** |
| Petroflex Trading S.A. | | Uruguay | **–** | **–** | **–** |
| Aurora Capital Holdings LLC | Real estate holdings | USA | **–** | **–** | **–** |
| Bolanter Corporation N.V. | Crude oil storage | Curaçao | **12** | **–** | **1** |
| 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** | **–** | **29** |
| 4 Rivers Energy LLC | Retail fuel operations | USA | **–** | **–** | **–** |
| Motiva Chemicals LLC | Petrochemical manufacture | USA | **221** | **173** | **–** |
| Motiva Enterprises LLC | Refining and marketing | USA | **1,903** | **21,481** | **129** |
| Motiva Pipeline LLC | Refining | USA | **–** | **–** | **–** |
| Motiva Trading LLC | Purchasing and sale of petroleum goods and other services | USA | **292** | **244** | **–** |
| Mukamala Oil Field Services Limited Company | Oil field services | Saudi Arabia | **449** | **–** | **8** |

All amounts in millions of Saudi Riyals unless otherwise stated

## 36. Subsidiaries of Saudi Arabian Oil Company continued

| | Principal business activity | Place of business/ country of incorporation | Conventional financial assets as of December 31, 2019[1,2] | Conventional financial liabilities as of December 31, 2019[2] | Interest income from conventional financial assets for the year ended December 31, 2019[2] |
|---|---|---|---|---|---|
| Pandlewood Corporation N.V. | Financing | Curaçao | **6,305** | **5** | **158** |
| Pedernales Ventures LLC | Retail fuel operations | USA | **–** | **–** | **–** |
| SAEV Europe Ltd. | Investment | United Kingdom | **1** | **5** | **–** |
| SAEV Guernsey 1 Ltd. | Investment | Guernsey | **130** | **–** | **–** |
| SAEV Guernsey Holdings Ltd. | Investment | Guernsey | **1,072** | **–** | **–** |
| Saudi Aramco Asia Company Ltd. | Investment | Saudi Arabia | **1,952** | **–** | **39** |
| Saudi Aramco Capital Company Limited | Investment | Guernsey | **–** | **–** | **–** |
| Saudi Aramco Development Company | Investment | Saudi Arabia | **422** | **–** | **11** |
| Saudi Aramco Energy Ventures LLC | Investment | Saudi Arabia | **68** | **–** | **–** |
| Saudi Aramco Energy Ventures – U.S. LLC | Investment | USA | **2** | **2** | **–** |
| Saudi Aramco Entrepreneurship Center Company Ltd. | Financing | Saudi Arabia | **162** | **5** | **7** |
| Saudi Aramco Entrepreneurship Venture Company, Ltd. | Investment | Saudi Arabia | **144** | **–** | **–** |
| Saudi Aramco Investment Management Company | Investment management of post-employment benefit plans | Saudi Arabia | **3** | **–** | **–** |
| Saudi Aramco Jubail Refinery Company | Refining | Saudi Arabia | **–** | **2,800** | **15** |
| Saudi Aramco Power Company | Power generation | Saudi Arabia | **25** | **–** | **–** |
| Saudi Aramco Retail Company | Retail fuel marketing | Saudi Arabia | **20** | **–** | **–** |
| Saudi Aramco Sukuk Company | Investment | Saudi Arabia | **–** | **65** | **–** |
| Saudi Aramco Technologies | Research and commercialization | Saudi Arabia | **99** | **75** | **–** |
| Saudi Aramco Upstream Technology Company | Research and commercialization | Saudi Arabia | **8** | **–** | **–** |
| Saudi Petroleum International, Inc. | Marketing support services | USA | **39** | **44** | **1** |
| Saudi Petroleum, Ltd. | Marketing support and tanker services | British Virgin Islands | **38** | **–** | **–** |
| Saudi Petroleum Overseas, Ltd. | Marketing support and tanker services | United Kingdom | **45** | **36** | **1** |
| Saudi Refining, Inc. | Refining and marketing | USA | **357** | **83** | **9** |
| Stellar Insurance, Ltd. | Insurance | Bermuda | **9,161** | **661** | **162** |
| Vela International Marine Ltd. | Marine management and transportation | Liberia | **21,259** | **–** | **566** |
| Wisayah Global Investment Company (formerly: Wisayah Alkhaleej Investment Company) | Financial support | Saudi Arabia | **139** | **30** | **2** |
| **B. Unconsolidated structured entity** | | | | | |
| Energy City Development Company ("SPARK") | Industrial development | Saudi Arabia | **–** | **–** | **–** |

1. Conventional financial assets comprise cash, time deposits, short term investments and investments in securities.
2. Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.
3. Agreements and constitutive documents provide Saudi Aramco control.

All amounts in millions of Saudi Riyals unless otherwise stated

## 36. Subsidiaries of Saudi Arabian Oil Company continued

| | Principal business activity | Place of business/ country of incorporation | Conventional financial assets as of December 31, 2019[1,2] | Conventional financial liabilities as of December 31, 2019[2] | Interest income from conventional financial assets for the year ended December 31, 2019[2] |
|---|---|---|---|---|---|
| **C. Non-wholly owned** | | | | | |
| 49% ownership of Aramco Training Services Company[3] | Training | USA | **1** | **–** | **–** |
| 50% ownership of ARLANXEO-TSRC (Nantong) Chemical Industries Co.,Ltd.[3] | Development, manufacture, and marketing of high-performance rubber | People's Republic of China | **3** | **85** | **–** |
| 80% ownership of Johns Hopkins Aramco Healthcare Company | Healthcare | Saudi Arabia | **527** | **669** | **6** |
| 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 | **–** | **1,531** | **17** |
| 50% ownership of Saudi Aramco Nabors Drilling Company[3] | Drilling | Saudi Arabia | **1,085** | **1,984** | **23** |
| 50% ownership of Saudi Aramco Rowan Offshore Drilling Company[3] | Drilling | Saudi Arabia | **889** | **2,629** | **26** |
| 61.6% ownership of S-Oil Corporation | Refining | South Korea | **1,987** | **26,464** | **45** |
| 61.6% ownership of S-International Ltd. | Purchasing and sale of petroleum goods | The Independent State of Samoa | **–** | **–** | **–** |

1. Conventional financial assets comprise cash, time deposits, short term investments and investments in securities.
2. Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.
3. Agreements and constitutive documents provide Saudi Aramco control.

All amounts in millions of Saudi Riyals unless otherwise stated

## 37. 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, 2019[1,2] | Conventional financial liabilities as of December 31, 2019[2] | Interest income from conventional financial assets for the year ended December 31, 2019[2] |
|---|---|---|---|---|---|---|
| Al-Khafji Joint Operations | Oil and gas exploration and production | 50% | Saudi-Kuwaiti Partitioned Zone | – | – | – |
| Fadhili Plant Cogeneration Company | Power generation | 30% | Saudi Arabia | **17** | **1,211** | – |
| Maasvlakte Olie Terminal C.V. | Tank storage | 9.61% | Netherlands | – | **644** | – |
| Maasvlakte Olie Terminal N.V. | Tank storage | 16.67% | Netherlands | – | **2** | – |
| Pengerang Refining Company Sdn. Bhd. | Refining | 50% | Malaysia | **936** | **20,439** | **6** |
| Pengerang Petrochemical Company Sdn. Bhd. | Petrochemical | 50% | Malaysia | **189** | **2,637** | **2** |
| Power Cogeneration Plant Company, LLC | Power generation | 50% | Saudi Arabia | **40** | **961** | **56** |
| Saudi Aramco Mobil Refinery Company Ltd. | Refining | 50% | Saudi Arabia | **839** | **1,088** | **20** |
| Saudi Aramco Total Refining and Petrochemical Company[3] | Refining and petrochemical | 62.50% | Saudi Arabia | **261** | **9,444** | **39** |
| Yanbu Aramco Sinopec Refining Company Limited[3] | Refining | 62.50% | Saudi Arabia | **241** | **7,037** | – |

1. Conventional financial assets comprise cash, time deposits, short term investments and investments in securities.
2. Represents Saudi Aramco's share of conventional financial assets, financial liabilities and interest income.
3. 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, 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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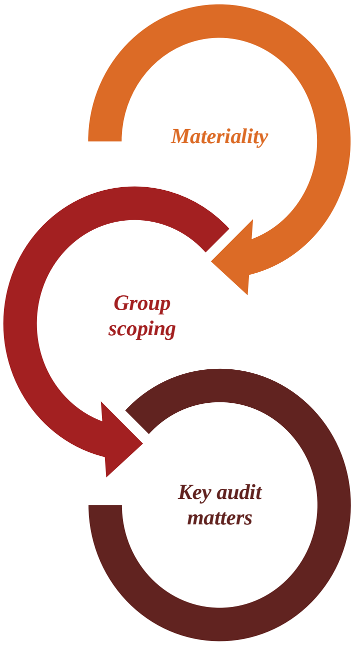
*Our audit approach*

**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.<br>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 | How our audit addressed the 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.<br><br>In addition, valuation methods are also used to initially measure net identifiable assets acquired in business combinations as part of a Purchase Price Allocation.<br><br>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.<br><br>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.<br><br>*Refer to Note 2(d), Note 2(h) and Note 31 to the consolidated financial statements for further information.* | In conjunction with our valuation experts, we performed the following audit procedures on the valuation models, as appropriate:<br><br>• We tested the mathematical accuracy and logical integrity of the valuation models;<br>• We agreed financial information used to the approved business plans of the underlying components;<br>• We compared price and other assumptions used to industry benchmarks and performed sensitivity analyses of these assumptions; and<br>• 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.<br><br>We also assessed the appropriateness of the accounting policies and disclosures made in the consolidated financial statements. |
| ***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.<br><br>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.<br><br>With respect to the IFRS 16 disclosures that relate to the potential implementation impact on the consolidated financial statements, management conducted an extensive exercise to identify and assess all of Saudi Aramco's significant lease arrangements. This was inherently complex given the large number of arrangements involved as well as the complexity of lease terms. Judgement and assumptions with respect to | 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.<br><br>Amongst other tests of controls and tests of details, we performed the following:<br><br>• 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;<br>• 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<br>• For IFRS 16, we assessed the completeness of significant lease arrangements identified by management. We selected a large sample of lease contracts to test the appropriateness of key |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| identifying lease arrangement and valuing the lease liability and the related right-of-use asset for disclosure purposes in the consolidated financial statements, were also required. Particularly, the determination of an appropriate discount rate involved estimation. Assumptions were also made regarding the duration of lease arrangements with renewal options, amongst other considerations. In addition, management implemented system changes and set up new processes and controls to handle the new method of lease accounting going forward.<br><br>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.<br><br>*Refer to Note 2(c) and Note 21 to the consolidated financial statements for further information.* | 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.<br><br>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. |

***Other information***

The Board of Directors is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements***

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Bylaws, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing Saudi Aramco's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate Saudi Aramco or to cease operations, or has no realistic alternative but to do so.

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

March 14, 2019

(All amounts in millions unless otherwise stated)

## CONSOLIDATED STATEMENT OF INCOME

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | 2018 | 2017 | 2018 | 2017 |
| Revenue | 21 | **1,182,137** | 840,483 | **315,236** | 224,129 |
| Other income related to sales | | **152,641** | 150,176 | **40,704** | 40,047 |
| **Revenue and other income related to sales** | | **1,334,778** | 990,659 | **355,940** | 264,176 |
| Production royalties and excise and other taxes | | **(208,505)** | (140,893) | **(55,601)** | (37,572) |
| Purchases | 27 | **(188,937)** | (126,093) | **(50,383)** | (33,625) |
| Producing and manufacturing | | **(56,202)** | (56,962) | **(14,987)** | (15,190) |
| Selling, administrative and general | | **(31,250)** | (30,994) | **(8,333)** | (8,265) |
| Exploration | | **(7,928)** | (13,725) | **(2,114)** | (3,660) |
| Research and development | | **(2,217)** | (1,902) | **(591)** | (507) |
| Depreciation and amortization | 5,6 | **(41,334)** | (37,175) | **(11,023)** | (9,913) |
| **Operating costs** | | **(536,373)** | (407,744) | **(143,032)** | (108,732) |
| **Operating income** | | **798,405** | 582,915 | **212,908** | 155,444 |
| Share of results of joint ventures and associates | 7 | **(1,415)** | (956) | **(377)** | (255) |
| Finance and other income | 22 | **3,865** | 1,569 | **1,030** | 418 |
| Finance costs | 17 | **(2,959)** | (2,090) | **(789)** | (557) |
| **Income before income taxes** | | **797,896** | 581,438 | **212,772** | 155,050 |
| **Income taxes** | 8 | **(381,378)** | (296,819) | **(101,701)** | (79,152) |
| **Net income** | | **416,518** | 284,619 | **111,071** | 75,898 |
| **Net income attributable to** | | | | | |
| Shareholder's equity | | **416,196** | 283,198 | **110,985** | 75,519 |
| Non-controlling interests | | **322** | 1,421 | **86** | 379 |
| | | **416,518** | 284,619 | **111,071** | 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

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | 2018 | 2017 | 2018 | 2017 |
| **Net income** | | **416,518** | 284,619 | **111,071** | 75,898 |
| **Other comprehensive income (loss), net of tax** | 16 | | | | |
| **Items that will not be reclassified to net income** | | | | | |
| 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)** | — |
| **Items that may be reclassified subsequently to net income** | | | | | |
| 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 |
| | | **3,871** | (5,023) | **1,032** | (1,339) |
| **Total comprehensive income** | | **420,389** | 279,596 | **112,103** | 74,559 |
| **Total comprehensive income attributable to** | | | | | |
| Shareholder's equity | | **420,524** | 277,017 | **112,139** | 73,871 |
| Non-controlling interests | | **(135)** | 2,579 | **(36)** | 688 |
| | | **420,389** | 279,596 | **112,103** | 74,559 |

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**Saudi Arabian Oil Company**
**Consolidated Financial Statements**
*(All amounts in millions unless otherwise stated)*

## CONSOLIDATED BALANCE SHEET

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | At December 31 | | At December 31 | |
| | Note | 2018 | 2017 | 2018 | 2017 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| 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 |
| | | **963,509** | 849,350 | **256,936** | 226,493 |
| **Current assets** | | | | | |
| 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 |
| | | **382,659** | 253,203 | **102,042** | 67,521 |
| **Total assets** | | **1,346,168** | 1,102,553 | **358,978** | 294,014 |
| **Equity and liabilities** | | | | | |
| **Shareholder's equity** | | | | | |
| 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 |
| | | **1,016,782** | 813,758 | **271,142** | 217,002 |
| **Non-controlling interests** | | **11,653** | 12,556 | **3,107** | 3,348 |
| | | **1,028,435** | 826,314 | **274,249** | 220,350 |
| **Non-current liabilities** | | | | | |
| 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 |
| | | **134,021** | 127,189 | **35,739** | 33,917 |
| **Current liabilities** | | | | | |
| 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 |
| | | **183,712** | 149,050 | **48,990** | 39,747 |
| | | **317,733** | 276,239 | **84,729** | 73,664 |
| **Total equity and liabilities** | | **1,346,168** | 1,102,553 | **358,978** | 294,014 |

* 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

(All amounts in millions unless otherwise stated)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | SAR | | | | | | | | USD* |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholder's equity | | | | | | | | |
| | | | | Retained earnings | | | | | |
| | Share capital | Stated capital | Additional paid-in capital | Unappropriated | Appropriated[1] | Other reserves (Note 16) | Non-controlling interests | Total | 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).

**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

(All amounts in millions unless otherwise stated)

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | | SAR | | USD* | |
|---|---|---|---|---|---|
| | | Year ended December 31 | | Year ended December 31 | |
| | Note | 2018 | 2017 | 2018 | 2017 |
| **Income before income taxes** | | **797,896** | 581,438 | **212,772** | 155,050 |
| **Adjustments to reconcile income before income taxes to net cash provided by operating activities** | | | | | |
| 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 |
| **Change in working capital** | | | | | |
| 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 |
| **Other changes** | | | | | |
| 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) |
| **Net cash provided by operating activities** | | **453,701** | 333,607 | **120,987** | 88,962 |
| 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 |
| **Net cash used in investing activities** | | **(131,205)** | (118,629) | **(34,988)** | (31,634) |
| 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) |
| **Net cash used in financing activities** | | **(220,586)** | (181,811) | **(58,823)** | (48,483) |
| **Net increase in cash and cash equivalents** | | **101,910** | 33,167 | **27,176** | 8,845 |
| Cash and cash equivalents at beginning of the year | | **81,242** | 48,075 | **21,665** | 12,820 |
| **Cash and cash equivalents at end of the year** | | **183,152** | 81,242 | **48,841** | 21,665 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

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Chairman of the Board

**Amin H. Nasser**
President & Chief Executive Officer

**Khalid H. Al-Dabbagh**
Senior Vice President, Finance, Strategy & Development

## 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 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.

- 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 (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 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.

*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.

(All amounts in millions unless otherwise stated)

When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalized costs are transferred to property, plant and equipment.

### (g) Property, plant and equipment

Property, plant and equipment is stated on the Company's Consolidated Balance Sheet at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the construction and/or acquisition of the asset. Land and construction-in-progress are not depreciated. When a construction-in-progress asset is deemed ready for use as intended by management, depreciation commences.

Subsequent expenditures including major renovations are included in an asset's carrying amount, or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to Saudi Aramco and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repair and maintenance expenditures are expensed as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met (Note 2(s)).

Where the life of expected hydrocarbon reserves substantially exceeds the economic or technical lives of the underlying assets, the straight-line method of depreciation is used on a field by field basis. The unit of production method is used for fields where the expected reserve life is approximately equal to or less than the estimated useful lives of the underlying assets. Depletion rates are calculated on the basis of a group of wells or fields with similar characteristics based on proved developed reserves. The estimation of expected reserve lives reflects management's assessment of proved developed reserves and the related depletion strategy on a field by field basis. Depreciation expense on all other assets is calculated using the straight-line method to allocate the cost less residual values over the estimated useful lives. Depreciation expense is recorded in the Consolidated Statement of Income.

Depreciation expense is calculated after determining an estimate of an asset's expected useful life and the expected residual value at the end of its useful life. The useful lives and residual values are determined by management at the time the asset is initially recognized and reviewed annually for appropriateness or when events or conditions occur that impact capitalized costs, hydrocarbon reserves or estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets:

| | |
|---|---|
| **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 recognized in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

**(h) Impairment of non-financial assets**

Saudi Aramco assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either, post-tax discounted cash flow models or available data from binding 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.

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.

**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.

**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 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.

**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.

**(l) 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.

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.

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.

*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.

### (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.

**(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 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.

**(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 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

(All amounts in millions unless otherwise stated)

The following table presents Saudi Aramco's assets and liabilities that are measured and recognized at fair value at 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.

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2018:** | | | | |
| Investments in securities: | | | | |
| Equity securities at FVOCI | **7,324** | **—** | **1,293** | **8,617** |
| Debt securities at FVOCI | **19** | **3,908** | **—** | **3,927** |
| Equity securities at FVPL | | **991** | **4,237** | **5,228** |
| Trade receivables related to contracts with provisional pricing arrangements | **—** | **—** | **73,509** | **73,509** |
| | **7,343** | **4,899** | **79,039** | **91,281** |
| Other current assets: | | | | |
| Interest rate swaps | **—** | **191** | **—** | **191** |
| Commodity swaps | **184** | **2,393** | **—** | **2,577** |
| Currency forward contracts | **—** | **33** | **—** | **33** |
| | **184** | **2,617** | **—** | **2,801** |
| **Total assets** | **7,527** | **7,516** | **79,039** | **94,082** |
| 2017: | | | | |
| 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 |
| | 8,959 | 4,900 | 5,283 | 19,142 |
| Other current assets: | | | | |
| Interest rate swaps | — | 122 | — | 122 |
| Commodity swaps | — | 253 | — | 253 |
| Currency forward contracts | — | 93 | — | 93 |
| | — | 468 | — | 468 |
| Total assets | 8,959 | 5,368 | 5,283 | 19,610 |

| Liabilities | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2018:** | | | | |
| 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** |
| | **—** | **1,320** | **—** | **1,320** |
| 2017: | | | | |
| 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 |
| | — | 633 | 91 | 724 |

(All amounts in millions unless otherwise stated)

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:

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **5,283** | 4,301 |
| Net additions | **389** | 683 |
| Acquisition | **11** | — |
| Realized gain/(loss) | **8** | (8) |
| Net movement in unrealized fair value (loss)/gain | **(161)** | 307 |
| **December 31** | **5,530** | 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.

(All amounts in millions unless otherwise stated)

Information by segments is as follows:

| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **2018** | | | | | |
| 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** |

| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **2017** | | | | | |
| 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:

| | In Kingdom | Out of Kingdom | Total |
|---|---|---|---|
| **2018** | | | |
| 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** |
| **2017** | | | |
| 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.

(All amounts in millions unless otherwise stated)

## 5. Property, plant and equipment

| | Crude oil facilities | Refinery and petrochemical facilities | Gas & NGL facilities | General service plant | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 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)** |
| **December 31, 2018** | **503,281** | **205,233** | **361,141** | **88,482** | **257,607** | **1,415,744** |
| **Accumulated depreciation** | | | | | | |
| 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** |
| **December 31, 2018** | **(253,544)** | **(74,438)** | **(160,220)** | **(53,715)** | **—** | **(541,917)** |
| **Property, plant and equipment—net, December 31, 2018** | **249,737** | **130,795** | **200,921** | **34,767** | **257,607** | **873,827** |
| Cost | | | | | | |
| January 1, 2017 | 440,119 | 130,909 | 306,225 | 71,888 | 155,321 | 1,104,462 |
| Acquisitions (Note 31) | — | 33,983 | — | — | — | 33,983 |
| Additions | 3,741 | 997 | 486 | 2,118 | 109,143 | 116,485 |
| Construction completed | 25,538 | 2,275 | 24,277 | 6,971 | (59,061) | — |
| Currency translation differences | — | 3,998 | — | 1 | 1,222 | 5,221 |
| Transfers | (75) | 24 | (1) | (1,268) | (2,768) | (4,088) |
| Transfer of exploration and evaluation assets | — | — | — | — | 2,504 | 2,504 |
| Retirements and sales | (725) | (121) | (1,507) | (759) | (113) | (3,225) |
| December 31, 2017 | 468,598 | 172,065 | 329,480 | 78,951 | 206,248 | 1,255,342 |
| Accumulated depreciation | | | | | | |
| January 1, 2017 | (222,824) | (58,988) | (136,601) | (50,683) | — | (469,096) |
| Additions | (15,335) | (6,503) | (11,675) | (2,932) | — | (36,445) |
| Currency translation differences | — | (1,906) | — | — | — | (1,906) |
| Transfers | (295) | (25) | (296) | 1,083 | — | 467 |
| Retirements and sales | 725 | 99 | 1,215 | 733 | — | 2,772 |
| December 31, 2017 | (237,729) | (67,323) | (147,357) | (51,799) | — | (504,208) |
| Property, plant and equipment—net, December 31, 2017 | 230,869 | 104,742 | 182,123 | 27,152 | 206,248 | 751,134 |

(All amounts in millions unless otherwise stated)

Finance lease assets with net book values of SAR 11,912 (2017: SAR 4,250) and SAR 705 (2017: SAR 251) are included in General service plant and Refinery and petrochemical facilities, respectively.

## 6. Intangible assets

| | Exploration and evaluation | Brands and trademarks | Franchise/ customer relationships | Computer software | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 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)** |
| **December 31, 2018** | **18,916** | **4,827** | **1,263** | **4,310** | **2,157** | **31,473** |
| **Accumulated amortization:** | | | | | | |
| 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)** |
| **December 31, 2018** | **—** | **(1,046)** | **(715)** | **(2,541)** | **(275)** | **(4,577)** |
| **Intangible assets—net, December 31, 2018** | **18,916** | **3,781** | **548** | **1,769** | **1,882** | **26,896** |
| Cost | | | | | | |
| January 1, 2017 | 11,258 | 2,330 | 1,233 | 3,086 | 581 | 18,488 |
| Acquisitions (Note 31) | — | 2,438 | — | 439 | 1,008 | 3,885 |
| Additions | 12,393 | — | — | 393 | — | 12,786 |
| Currency translation differences | — | 283 | 148 | — | — | 431 |
| Transfers | 3,016 | (120) | (63) | 183 | — | 3,016 |
| Transfer of exploration and evaluation assets | (2,504) | — | — | — | — | (2,504) |
| Write-offs | (8,155) | — | — | — | — | (8,155) |
| December 31, 2017 | 16,008 | 4,931 | 1,318 | 4,101 | 1,589 | 27,947 |
| Accumulated amortization | | | | | | |
| 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) |
| Intangible assets—net, December 31, 2017 | 16,008 | 4,271 | 761 | 1,750 | 1,556 | 24,346 |

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).

(All amounts in millions unless otherwise stated)

## 7. Investments in joint ventures and associates

| Company | Equity Ownership 2018/ 2017 | Principal place of business | Nature of activities | Carrying amount at December 31, 2018 | Carrying amount at December 31, 2017 |
|---|---|---|---|---|---|
| Sadara Chemical Company (“Sadara”)[1][2] | **65%** | Saudi Arabia | Petrochemical | **11,660** | 11,729 |
| ARLANXEO Holding B.V. (“ARLANXEO”)[3] | **Nil / 50%** | Netherlands | Synthetic rubber | **—** | 5,419 |
| Rabigh Refining and Petrochemical Company (“Petro Rabigh”)[2][4] | **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”)[4] | **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”)[1] | **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”)[1] | **60% / Nil** | United States | Marketing | **331** | — |
| First Coast Energy LLP | **50%** | United States | Marketing | **263** | 298 |
| S-Oil TOTAL Lubricants Limited | **50%** | South Korea | Lubricants 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** | — |
| | | | | **22,579** | 27,273 |

(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.

(All amounts in millions unless otherwise stated)

The components of the change in the investments in joint ventures and associates for the years ended December 31, 2018 and 2017 are as follows:

| | Joint Ventures | | Associates | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **January 1** | **12,216** | 29,564 | **15,057** | 13,936 |
| Share of results of joint ventures and associates | **(2,608)** | (2,079) | **1,193** | 1,123 |
| Additional investment | **2,531** | 5,349 | **368** | 317 |
| Investment in joint venture (Note 31(a)) | **331** | — | **—** | — |
| Derecognition of investment in ARLANXEO (Note 31(c)(i)) | **—** | — | **(4,943)** | — |
| Derecognition of investment in Motiva (Note 31(c)(ii)) | **—** | (21,086) | **—** | — |
| Distributions | **(75)** | (116) | **(998)** | (724) |
| Change in elimination of profit in inventory | **(23)** | 569 | **(80)** | (39) |
| Share of other comprehensive income (losses) | **53** | 15 | **(443)** | 444 |
| **December 31** | **12,425** | 12,216 | **10,154** | 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 |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | **1,384** | **—** | **3,184** | **4,035** | **4,189** | **12,792** |
| Other | **7,931** | **—** | **15,904** | **5,104** | **6,503** | **35,442** |
| Total current assets | **9,315** | **—** | **19,088** | **9,139** | **10,692** | **48,234** |
| **Non-current assets** | **72,422** | **—** | **52,178** | **10,851** | **42,019** | **177,470** |
| **Current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | **3,525** | **—** | **13,898** | **656** | **2,891** | **20,970** |
| Other | **6,105** | **—** | **14,273** | **2,700** | **5,850** | **28,928** |
| Total current liabilities | **9,630** | **—** | **28,171** | **3,356** | **8,741** | **49,898** |
| **Non-current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | **48,634** | **—** | **33,641** | **6,806** | **21,075** | **110,156** |
| Other | **5,280** | **—** | **488** | **154** | **1,316** | **7,238** |
| Total non-current liabilities | **53,914** | **—** | **34,129** | **6,960** | **22,391** | **117,394** |
| **Net assets** | **18,193** | **—** | **8,966** | **9,674** | **21,579** | **58,412** |
| Saudi Aramco interest | **65%** | **Nil** | **37.5%** | **25%** | **20%-50.1%** | |
| **Saudi Aramco share** | **11,825** | **—** | **3,362** | **2,419** | **5,363** | **22,969** |
| Elimination of profit in inventory | **11** | **—** | **(388)** | **—** | **(2)** | **(379)** |
| Fair value and other adjustments | **(176)** | **—** | **(211)** | **—** | **376** | **(11)** |
| **Investment balance, December 31** | **11,660** | **—** | **2,763** | **2,419** | **5,737** | **22,579** |

(All amounts in millions unless otherwise stated)

**Summarized Statement of Comprehensive Income**
**Year ended December 31, 2018**

| | Sadara | ARLANXEO | Petro Rabigh | FREP | Other | Total |
|---|---|---|---|---|---|---|
| Revenue | 13,114 | 14,288 | 42,165 | 29,760 | 34,725 | 134,052 |
| Depreciation and amortization | 3,848 | 1,429 | 2,445 | 1,373 | 2,254 | 11,349 |
| Conventional interest income | — | — | 296 | 90 | 60 | 446 |
| Interest expense | 2,258 | 146 | 728 | 368 | 626 | 4,126 |
| Income tax expense | 49 | 135 | 128 | 638 | 285 | 1,235 |
| Net (loss) income | (4,009) | (98) | 1,301 | 1,609 | 1,028 | (169) |
| Other comprehensive income (loss) | 94 | (578) | (15) | (495) | (86) | (1,080) |
| Total comprehensive (loss) income | (3,915) | (676) | 1,286 | 1,114 | 942 | (1,249) |

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

| | Conventional financial assets as of December 31, 2018 | Conventional financial liabilities as of December 31, 2018 | Interest income from conventional financial assets for the year ended December 31, 2018 |
|---|---|---|---|
| Sadara | 6,765 | 52,159 | — |
| FREP | 4,778 | 7,463 | 90 |
| Marafiq | 2,906 | 5,213 | 26 |
| SSPC | 1,155 | — | 30 |
| IMI | 859 | 124 | — |
| IIC | 544 | 8 | — |
| S-Oil TOTAL Lubricants Limited | 251 | 143 | — |
| GCC Lab | 109 | — | 4 |
| Pan Arabian Program Management Company | 38 | — | — |
| Juniper | 8 | 23 | — |
| First Coast Energy LLP | — | 585 | — |
| Star | — | — | — |

(All amounts in millions unless otherwise stated)

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in Saudi Aramco's financial statements at December 31, 2017 are set out below:

**Summarized Balance Sheet**
**At December 31, 2017**

| | Sadara | ARLANXEO | Petro Rabigh | FREP | Other | Total |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | 506 | 1,279 | 2,670 | 3,311 | 5,896 | 13,662 |
| Other | 7,583 | 4,960 | 9,101 | 6,352 | 5,204 | 33,200 |
| Total current assets | 8,089 | 6,239 | 11,771 | 9,663 | 11,100 | 46,862 |
| **Non-current assets** | 71,364 | 7,368 | 51,829 | 11,768 | 43,537 | 185,866 |
| **Current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | 2,757 | 615 | 3,956 | 653 | 1,849 | 9,830 |
| Other | 6,172 | 2,033 | 9,161 | 2,899 | 6,916 | 27,181 |
| Total current liabilities | 8,929 | 2,648 | 13,117 | 3,552 | 8,765 | 37,011 |
| **Non-current liabilities:** | | | | | | |
| Financial liabilities (excluding trade and other payables) | 52,084 | 195 | 42,473 | 7,838 | 24,247 | 126,837 |
| Other | 326 | 1,436 | 394 | 135 | 1,271 | 3,562 |
| Total non-current liabilities | 52,410 | 1,631 | 42,867 | 7,973 | 25,518 | 130,399 |
| **Net assets** | 18,114 | 9,328 | 7,616 | 9,906 | 20,354 | 65,318 |
| Saudi Aramco interest | 65% | 50% | 37.5% | 25% | 20%-50.1% | |
| **Saudi Aramco share** | 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 | (79) | 755 | (23) | — | 392 | 1,045 |
| **Investment balance, December 31** | 11,729 | 5,419 | 2,525 | 2,477 | 5,123 | 27,273 |

**Summarized Statement of Comprehensive Income**
**Year ended December 31, 2017**

| | Sadara | ARLANXEO | Petro Rabigh | FREP | Other | Total |
|---|---|---|---|---|---|---|
| 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 | (4) | 536 | — | — | 108 | 640 |
| Total comprehensive (loss) income | (4,845) | 528 | 686 | 2,854 | 3,420 | 2,643 |

(All amounts in millions unless otherwise stated)

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

| | Conventional financial assets as of December 31, 2017 | Conventional financial liabilities as of December 31, 2017 | Interest income from conventional financial assets for the year ended December 31, 2017 |
|---|---|---|---|
| Sadara | 3,555 | 46,459 | — |
| FREP | 6,311 | 11,299 | — |
| ARLANXEO | 1,703 | 2,130 | — |
| Marafiq | 2,055 | 9,836 | 41 |
| IIC | 596 | 38 | 4 |
| IMI | 375 | 11 | — |
| S-Oil TOTAL Lubricants Limited | 266 | 146 | — |
| GCC Lab | 146 | — | 4 |
| First Coast Energy LLP | 26 | 645 | — |

Saudi Aramco's share of the fair value of the associates listed in their respective national stock exchanges at December 31 together with their carrying value at those dates is as follows:

| | Fair value | | Carrying value | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Petro Rabigh | **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.

(All amounts in millions unless otherwise stated)

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

| | 2018 | 2017 |
|---|---|---|
| Income before income taxes | **797,896** | 581,438 |
| Income taxes at the Kingdom's statutory tax rates | **387,937** | 290,719 |
| Tax effect of: | | |
| Impact of new income tax rate on net deferred tax assets | **(3,904)** | 10,579 |
| Impact of change from zakat to income tax on investments in shares of resident capital companies | **1,282** | — |
| Income not subject to tax at statutory rates and other | **(3,937)** | (4,479) |
| | **381,378** | 296,819 |

### (b) Income tax expense

| | 2018 | 2017 |
|---|---|---|
| Current income tax—Kingdom | **365,415** | 262,296 |
| Current income tax—Foreign | **349** | 1,415 |
| Deferred income tax—Kingdom: | | |
| Impact of change in income tax rate | **(3,904)** | 10,579 |
| Charge for the period | **19,830** | 23,205 |
| Deferred income tax—Foreign | **(312)** | (676) |
| | **381,378** | 296,819 |

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

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **57,679** | 28,541 |
| Provided during the year | **365,415** | 262,296 |
| Payments during the year (Note 29) | **(180,119)** | (172,753) |
| Settlements of due from the Government (Note 23(a)) | **(167,752)** | (56,197) |
| Other settlements | **(5,648)** | (4,208) |
| **December 31** | **69,575** | 57,679 |

(All amounts in millions unless otherwise stated)

### (d) Deferred income taxes

| | 2018 | 2017 |
|---|---|---|
| **Deferred income tax assets:** | | |
| Kingdom | **8,946** | 13,542 |
| U.S. Federal and State | **14** | 27 |
| Other foreign | **906** | 37 |
| | **9,866** | 13,606 |
| **Deferred income tax liabilities:** | | |
| Kingdom | **18,637** | 31 |
| U.S. Federal and State | **2,234** | 2,430 |
| Other foreign | **3,006** | 3,848 |
| | **23,877** | 6,309 |
| **Net deferred income tax (liabilities) assets** | **(14,011)** | 7,297 |

The gross movement of the net deferred income tax position is as follows:

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **7,297** | 58,339 |
| Current period charge to income | **(15,614)** | (33,108) |
| Adjustments to equity—Other reserves | **(5,863)** | (17,167) |
| Other adjustments | **169** | (767) |
| **December 31** | **(14,011)** | 7,297 |

| | 2018 | 2017 |
|---|---|---|
| Deferred income tax to be (settled)/recovered after more than 12 months | **(14,011)** | 1,259 |
| Deferred income tax to be recovered within 12 months | **—** | 6,038 |
| **Net deferred income tax (liabilities) assets** | **(14,011)** | 7,297 |

(All amounts in millions unless otherwise stated)

The movement in deferred income tax assets/(liabilities) for the year is as follows:

| | Post-employment benefit obligations | Investments in joint ventures | Undistributed earnings | Provisions and other | Loss carry-forward | Property plant and equipment and intangibles | Fair value of available-for-sale financial assets | Investments in securities at FVOCI | Total |
|---|---|---|---|---|---|---|---|---|---|
| **January 1, 2017** | | | | | | | | | |
| 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) |
| | 39,675 | (6,659) | (717) | 13,378 | 5,756 | 11,572 | (4,666) | — | 58,339 |
| 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) |
| | (20,264) | (67) | (168) | (1,903) | 1,585 | (32,369) | 2,144 | — | (51,042) |
| **December 31, 2017** | | | | | | | | | |
| 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) |
| | 19,411 | (6,726) | (885) | 11,475 | 7,341 | (20,797) | (2,522) | — | 7,297 |
| 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** |
| | **(8,159)** | **3,094** | **105** | **(2,636)** | **433** | **(15,037)** | **2,522** | **(1,630)** | **(21,308)** |
| **December 31, 2018** | | | | | | | | | |
| 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)** |
| | **11,252** | **(3,632)** | **(780)** | **8,839** | **7,774** | **(35,834)** | **—** | **(1,630)** | **(14,011)** |

On December 22, 2017, amendments to the U.S. Federal Income Tax Law were enacted which, among other changes, reduced the top U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. To reflect the lower tax rate, net deferred tax liabilities at December 31, 2017 were reduced by SAR 1,307 with a corresponding benefit to tax expense.

On December 19, 2017, South Korea enacted a 2018 tax reform bill which, among other changes, increased the top corporate tax rate from 24.2% to 27.5% effective January 1, 2018. To reflect the higher income tax rate, net deferred tax liabilities at December 31, 2017 were increased by SAR 303, with a corresponding increase in tax expense.

A deferred income tax liability has not been recognized with regard to the undistributed earnings of certain subsidiaries which are considered to be permanently reinvested in their respective businesses. Such earnings would be taxed only upon distribution. The cumulative amount of the undistributed earnings of such subsidiaries is SAR 31,922 and SAR 50,652 at December 31, 2018 and 2017, respectively, and the unrecognized deferred income tax liability is SAR 3,547 and SAR 3,737 at December 31, 2018 and 2017, respectively.

(All amounts in millions unless otherwise stated)

### (e) Tax assessments

The Company and its subsidiaries and affiliates are subject to tax review and audit in tax jurisdictions where they operate. In 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

| | 2018 | 2017 |
|---|---|---|
| **Non-current:** | | |
| Home loans | **5,023** | 4,735 |
| Home ownership construction | **4,088** | 2,886 |
| Loans to joint venture and associate (Note 30(b)) | **2,777** | 4,652 |
| Finance lease receivable from associate (Note 30(b)) | **452** | 465 |
| Derivative assets | **191** | 119 |
| Other | **596** | 1,262 |
| | **13,127** | 14,119 |
| **Current:** | | |
| Employee and other receivables | **3,557** | 1,196 |
| Prepaid expenses | **2,984** | 1,015 |
| Derivative assets | **2,610** | 346 |
| Tax receivables | **2,347** | 358 |
| Home loans | **750** | 718 |
| Investments in securities (Note 10) | **558** | 270 |
| Rig mobilization fees | **398** | 1,261 |
| Interest receivable | **171** | 273 |
| Assets held for sale | **81** | 235 |
| Receivables from joint venture and associates (Note 30(b)) | **71** | 33 |
| Other | **248** | 176 |
| | **13,775** | 5,881 |

(All amounts in millions unless otherwise stated)

**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:

| | 2018 | 2017 |
|---|---|---|
| Gross amounts receivable | **8,470** | 7,907 |
| Less: | | |
| Discount | **(1,868)** | (1,494) |
| Allowance for doubtful home loans | **(480)** | (593) |
| Subsidies | **(349)** | (367) |
| Net amounts receivable | **5,773** | 5,453 |
| **Current** | **(750)** | (718) |
| **Non-current** | **5,023** | 4,735 |

## 10. Investments in securities

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **19,142** | 17,670 |
| Acquisitions | **11** | — |
| Net additions | **490** | 506 |
| Net unrealized fair value (loss) gain | **(1,871)** | 949 |
| Net unrealized foreign currency gain | **—** | 17 |
| **December 31** | **17,772** | 19,142 |
| **Current (Note 9)** | **(558)** | (270) |
| **Non-current** | **17,214** | 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.

(All amounts in millions unless otherwise stated)

The components of Investments in securities are as follows:

| | 2018 | |
|---|---|---|
| | **Percentage ownership** | **Carrying amount as of December 31** |
| **Equity investments classified as FVOCI:** | | |
| **Equity investments—listed securities:** | | |
| Saudi Electricity Company ("SEC") | **6.9%** | **4,369** |
| Showa Shell Sekiyu K.K. ("Showa Shell") | **15.1%** | **2,955** |
| **Equity investments—unlisted securities:** | | |
| Arab Petroleum Pipeline Company ("Sumed") | **15.0%** | **824** |
| Industrialization & Energy Services Company ("TAQA") | **4.6%** | **315** |
| Daehan Oil Pipeline Corporation ("Daehan") | **8.9%** | **154** |
| **Investments in debt securities classified as FVOCI:** | | |
| 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 | | **3,338** |
| U.S. Dollar debt securities with variable interest rates and maturity dates between January 2019 and October 2068 | | **589** |
| | | **12,544** |
| **Equity investments classified as FVPL:** | | |
| Listed securities—mutual and hedge funds | | **4,189** |
| Unlisted securities | | **1,039** |
| | | **17,772** |

| | 2017 | |
|---|---|---|
| | **Percentage ownership** | **Carrying amount as of December 31** |
| **Available-for-sale financial assets:** | | |
| **Equity investments—listed securities:** | | |
| Saudi Electricity Company ("SEC") | 6.9% | 6,071 |
| Showa Shell Sekiyu K.K. ("Showa Shell") | 14.9% | 2,869 |
| Mutual and hedge funds | | 4,208 |
| **Equity investments—unlisted securities:** | | |
| Arab Petroleum Pipeline Company ("Sumed") | 15.0% | 907 |
| Industrialization & Energy Services Company ("TAQA") | 4.6% | 247 |
| Daehan Oil Pipeline Corporation ("Daehan") | 8.9% | 161 |
| **Investments in debt securities:** | | |
| U.S. Dollar debt securities with fixed interest rates ranging from 0.6% to 9.8% and maturity dates between January 2018 and February 2048 | | 3,334 |
| U.S. Dollar debt securities with variable interest rates and maturity dates between March 2018 and October 2062 | | 497 |
| | | 18,294 |
| **Financial assets at fair value through profit or loss—unlisted securities** | | 848 |
| | | 19,142 |

Equity investments designated at FVOCI are not held for trading. Instead they are held for medium to long-term strategic purposes. Accordingly, management has elected to designate these equity investments at FVOCI as recognizing short-term fluctuations in these investments' fair value in net income would not be consistent with Saudi Aramco's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

(All amounts in millions unless otherwise stated)

The fair value of Sumed is based on expected cash flows discounted using a rate based on market interest rates and a risk premium specific to the unlisted security which was 10.6% and 9.8% for the years ended December 31, 2018 and 2017, respectively. The fair value of TAQA is based on an earnings growth factor for unlisted equity securities from market information for similar types of companies. The fair value of Daehan is determined using discounted cash flow analysis based on the risk adjusted yield.

The maximum exposure to credit risk at the reporting date of the investments in debt securities is the fair value. To limit credit risk, Saudi Aramco's investment policy requires that these securities be diversified. Credit ratings for debt securities held at December 31, 2018 range from AAA to BB (2017: AAA to BB) as set out by internationally recognized credit rating agencies.

## 11. Inventories

| | **2018** | **2017** |
|---|---|---|
| Crude oil, refined products and chemicals | **37,241** | 28,130 |
| Materials and supplies—net | **6,130** | 5,735 |
| Natural gas liquids and other | **209** | 148 |
| | **43,580** | 34,013 |

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

| | **2018** | **2017** |
|---|---|---|
| **Balance, January 1** | **1,911** | 1,733 |
| Additions to the allowance | **177** | 178 |
| **Balance, December 31** | **2,088** | 1,911 |

## 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:

| | **2018** | **2017** |
|---|---|---|
| Arising from export and local sales at international prices | **81,662** | 78,129 |
| Arising from local sales at Kingdom regulated prices | **12,995** | 9,619 |
| | **94,657** | 87,748 |
| Less: Allowances arising from local sales at Kingdom regulated prices | **(839)** | (856) |
| | **93,818** | 86,892 |

Trade receivables relating to certain contracts with provisional pricing arrangements are measured at fair value. The fair value was calculated using forward curves and future prices. These trade receivables are classified as level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk in the fair value calculation.

As described in Note 2(n), the Government through the Ministry of Finance provided a guarantee to the Company in the event that certain Government and semi-Government agencies are unable to settle within the terms agreed with the Company.

(All amounts in millions unless otherwise stated)

The movement of the allowance for trade receivables related to past due sales is as follows:

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **856** | 818 |
| Net movement in allowance | **(17)** | 38 |
| **December 31** | **839** | 856 |

## 13. Due from the Government

| | 2018 | 2017 |
|---|---|---|
| Amounts due from other income related to sales (Note 2(w)) | **35,268** | 38,717 |
| Amounts due under Government Guarantee (Note 2(n)) | **12,872** | 274 |
| Note 30(b) | **48,140** | 38,991 |

## 14. Short-term investments

| | 2018 | 2017 |
|---|---|---|
| South Korean Won time deposits | **154** | 5,999 |
| SAR time deposits | **40** | 80 |
| USD time deposits | **—** | 105 |
| | **194** | 6,184 |

## 15. Cash and cash equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash at bank and in hand | **31,015** | 21,058 |
| USD time deposits | **146,886** | 53,771 |
| South Korean Won time deposits | **2,206** | 1,328 |
| USD murabaha time deposits (Shari'a compliant) | **1,440** | 3,677 |
| SAR time deposits | **1,277** | 747 |
| SAR repurchase agreements | **328** | 661 |
| | **183,152** | 81,242 |

(All amounts in millions unless otherwise stated)

## 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 |
| **January 1, 2017** | (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) |
| **December 31, 2017** | 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** |
| **December 31, 2018** | **129** | **2,919** | **—** | **—** | **(74)** | **4** | **198** | **3,176** |

(All amounts in millions unless otherwise stated)

## 17. Borrowings

| | 2018 | 2017 |
|---|---|---|
| **Non-current:** | | |
| Borrowings | **25,934** | 29,181 |
| Debentures | **17,014** | 20,735 |
| Sukuk (Shari'a compliant) | **12,821** | 13,001 |
| Finance lease liabilities | **12,329** | 4,641 |
| Other[1] | **3,231** | 1,134 |
| | **71,329** | 68,692 |
| **Current:** | | |
| Short-term bank financing | **23,174** | 4,857 |
| Borrowings | **5,906** | 3,579 |
| Sukuk (Shari'a compliant) | **180** | 157 |
| Finance lease liabilities | **729** | 313 |
| | **29,989** | 8,906 |
| **Finance costs:** | | |
| Conventional borrowing | **1,576** | 657 |
| Finance lease liabilities | **480** | 500 |
| Shari'a compliant financial instruments | **593** | 625 |
| Unwinding of discount (Note 19) | **310** | 308 |
| | **2,959** | 2,090 |

(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:

| | | Total facility | | Total undrawn | |
|---|---|---|---|---|---|
| | Note | 2018 | 2017 | 2018 | 2017 |
| Revolving credit facilities | a | **47,677** | 48,825 | **47,677** | 48,825 |
| Sukuk (Shari'a compliant) | b | **39,844** | 39,844 | **26,250** | 26,250 |
| Short-term borrowings | c | **33,840** | 24,578 | **10,928** | 19,721 |
| Commercial and other | d | **28,968** | 28,031 | **3,263** | 4,605 |
| Export credit agencies | e | **13,854** | 13,854 | **7,500** | 7,500 |
| Public Investment Fund | f | **4,594** | 4,594 | **—** | — |
| Saudi Industrial Development Fund (Shari'a compliant) | g | **3,248** | 1,249 | **—** | — |
| Procurement (Shari'a compliant) | h | **2,528** | 2,528 | **—** | — |
| Wakala (Shari'a compliant) | i | **821** | 821 | **—** | — |
| | | **175,374** | 164,324 | **95,618** | 106,901 |

**(a) Revolving credit facilities**

At December 31, 2018, Saudi Aramco held facilities that total SAR 47,677 (2017: SAR 48,825) consisting of:

**(i)** The Company maintains USD denominated conventional five-year $6,000 (SAR 22,500) and a $1,000 (SAR 3,750) 364-day facility along with a SAR denominated Islamic murabaha five-year facility in the amount of SAR 7,500 and a SAR 3,750 364-day facility. Both of the five-year facilities were established in March 2015 and are fully available through the end of the fifth year and each can be extended twice for an additional one year period for a maximum of seven years if the extension options are exercised. The credit facility documentation provides for certain limits on the creation of liens on or other security interests in the assets of the Company, and on the sale, lease or transfer, of its assets to third parties.

**(ii)** Saudi Aramco subsidiaries maintain facilities of SAR 10,177 (2017: SAR 11,325), of which two one-year facilities were acquired with Motiva (Note 31(c)(ii)), a letter of credit facility of $600 (SAR 2,250) and a revolving credit facility of $1,500 (SAR 5,625) for working capital requirements and to support trading activities. Both are expected to be renewed in 2019. The remaining revolving credit facilities are executed with a group of foreign and domestic banks for general corporate purposes and working capital requirements.

**(b) Sukuk (Shari'a compliant)**

A sukuk is a financial instrument similar to a bond that complies with Islamic financing principles.

**(i)** On April 10, 2017, Saudi Aramco issued a sukuk for SAR 11,250 at par value as part of a SAR 37,500 program. The sukuk issuance provides a return based on Saudi Arabian Interbank Offered Rate (SAIBOR) plus a pre-determined margin payable semi-annually on April 10 and October 10. The sukuk matures on April 10, 2024. In accordance with the terms of the sukuk, 51% of the proceeds from issuance are invested in mudaraba assets and the remaining 49% are used in a murabaha arrangement.

**(ii)** On October 9, 2011, Saudi Aramco issued a sukuk for SAR 2,344 at par value with semi-annual payments from December 20, 2014 to December 20, 2025 that provides a rate of return above SAIBOR. The sukuk was structured as Istisnah for pre-construction and Ijara for post-construction of the project.

**(c) Short-term borrowings**

**(i) Bridge loan facility**

Saudi Aramco has facility agreements with 19 banks in the amount of SAR 15,000 for bridge loans that are calculated at a market rate plus a margin and are expected to be converted to long-term debt in 2019.

**(ii)** Saudi Aramco has facilities with a number of banks for short-term borrowing with each borrowing less than one year and drawing interest at market rates plus a margin.

**(d) Commercial and other**

Saudi Aramco has commercial and other facility agreements with a number of banks. The facilities are primarily repayable in twelve to twenty-three installments on a semi-annual basis from June 15, 2014 to December 20, 2025. Commission is payable on amounts drawn that are mainly calculated at a market rate plus a margin.

**(e) Export credit agencies**

**(i) UK Export Finance facility**

On October 11, 2017, Saudi Aramco entered into a USD denominated facility in the amount of $2,000 (SAR 7,500) with five commercial banks which is guaranteed by UK Export Finance. The facility expires during 2019 with repayments on borrowings for five years with a margin based on LIBOR. No drawdowns have been made as of December 31, 2018.

**(ii) Other Export Credit Agencies**

Saudi Aramco has facility agreements with six export credit agencies. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

**(f) Public Investment Fund**

Saudi Aramco has facility agreements with the Saudi Public Investment Fund. The facilities are repayable in fourteen to twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

**(g) Saudi Industrial Development Fund (Shari'a compliant)**

Saudi Aramco has facility agreements with the Saudi Industrial Development Fund. The facilities bear no periodic financial charges and borrowings are repayable in twelve to fourteen unequal installments on a semi-annual basis according to the Hijri calendar commencing from 15 Sha'aban 1437 H (May 22, 2016) to 15 Safar 1452 (June 17, 2030).

**(h) Procurement (Shari'a compliant)**

Saudi Aramco has Shari'a compliant Islamic Facility Agreements with a number of banks. The facilities are repayable in twenty-three unequal installments on a semi-annual basis commencing 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.

(All amounts in millions unless otherwise stated)

The carrying amounts of non-current borrowings at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Commercial and other | **19,428** | 20,966 |
| Sukuk (Shari'a compliant) | **13,009** | 13,166 |
| Export credit agencies | **4,230** | 4,683 |
| Public Investment Fund | **3,341** | 3,765 |
| Saudi Industrial Development Fund (Shari'a compliant) | **2,778** | 960 |
| Procurement | **1,901** | 2,070 |
| Wakala | **615** | 672 |
| Other | **3,231** | 1,134 |
| | **48,533** | 47,416 |
| Less: unamortized transaction costs | **(461)** | (364) |
| | **48,072** | 47,052 |
| Debentures denominated in USD | **8,479** | 11,333 |
| Debentures denominated in Korean Won | **8,535** | 9,402 |
| | **65,086** | 67,787 |
| Less: current portion | **(6,086)** | (3,736) |
| Non-current portion | **59,000** | 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:

| | 2018 | 2017 |
|---|---|---|
| **January 1** | **364** | 417 |
| Additional transaction costs incurred | **157** | — |
| Less: amortization | **(60)** | (53) |
| **December 31** | **461** | 364 |

Maturities at carrying values of long-term borrowings are as follows:

| | 2018 | 2017 |
|---|---|---|
| No later than one year | **6,086** | 3,736 |
| Later than one year and no later than five years | **26,183** | 29,736 |
| Later than five years | **33,278** | 34,679 |
| | **65,547** | 68,151 |

Maturities at contractual values of long-term borrowings are as follows:

| | 2018 | 2017 |
|---|---|---|
| No later than one year | **6,946** | 5,006 |
| Later than one year and no later than five years | **28,931** | 36,694 |
| Later than five years | **41,163** | 40,175 |
| | **77,040** | 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 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.

(All amounts in millions unless otherwise stated)

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:

| | **2018** | **2017** |
|---|---|---|
| No later than one year | **1,655** | 774 |
| Later than one year and no later than five years | **5,601** | 3,035 |
| Later than five years | **15,711** | 4,517 |
| | **22,967** | 8,326 |
| Future finance charges on finance leases | **(9,909)** | (3,372) |
| | **13,058** | 4,954 |

The present value of finance lease liabilities at December 31 is as follows:

| | **2018** | **2017** |
|---|---|---|
| No later than one year | **729** | 313 |
| Later than one year and no later than five years | **2,463** | 1,499 |
| Later than five years | **9,866** | 3,142 |
| | **13,058** | 4,954 |

The movement of borrowings was as follows:

| | **Long-term borrowings** | **Short-term borrowings** | **Finance lease liabilities** | **Total liabilities from financing activities** |
|---|---|---|---|---|
| **January 1, 2017** | 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 |
| **December 31, 2017** | 67,787 | 4,857 | 4,954 | 77,598 |
| Cash flows | **(3,083)** | **3,986** | **(339)** | **564** |
| Non-cash changes: | | | | |
| Acquisitions (Note 31) | **—** | **14,331** | **248** | **14,579** |
| Finance lease additions (Note 23(b)) | **—** | **—** | **8,195** | **8,195** |
| Foreign exchange adjustment | **(540)** | **—** | **—** | **(540)** |
| Others | **922** | **—** | **—** | **922** |
| **December 31, 2018** | **65,086** | **23,174** | **13,058** | **101,318** |

## 18. Post-employment benefit obligations

Saudi Aramco sponsors several funded and unfunded defined benefit pension plans and other post-employment benefit plans that provide pension, severance, death, medical and/or other benefits to substantially all of its employees primarily in Saudi Arabia. Majority of the defined benefit plans for Saudi Arabia based employees are governed under the Kingdom of Saudi Arabia employment law, Pension Protection Act (PPA) rules of the USA, and Company policies. Benefits to employees of group companies are provided based on local regulations and practices of the respective jurisdiction.

(All amounts in millions unless otherwise stated)

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:

| | 2018 | 2017 |
|---|---|---|
| Pension plans | **(1,080)** | 1,111 |
| Medical and other post-employment benefit plans | **24,289** | 37,080 |
| **Net benefit liability** | **23,209** | 38,191 |

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Net benefit obligation by funding:** | | | | |
| Present value of funded obligations | **52,023** | 50,454 | **78,548** | 92,175 |
| Fair value of plan assets | **(58,376)** | (53,726) | **(60,758)** | (61,661) |
| **Benefit (surplus)/deficit** | **(6,353)** | (3,272) | **17,790** | 30,514 |
| Present value of unfunded obligations | **5,273** | 4,383 | **6,499** | 6,566 |
| **Net benefit (asset)/liability** | **(1,080)** | 1,111 | **24,289** | 37,080 |
| **Change in benefit obligations:** | | | | |
| Benefit obligations, January 1 | **54,837** | 49,838 | **98,741** | 93,803 |
| Current service cost | **3,270** | 2,865 | **2,303** | 2,123 |
| Interest cost | **2,010** | 2,039 | **3,698** | 4,005 |
| Past service cost | **(4)** | 176 | **(1,016)** | 187 |
| Remeasurement | **(3,280)** | 2,664 | **(17,431)** | (158) |
| Plan participants' contribution | **113** | 116 | **—** | — |
| Benefits paid | **(3,330)** | (3,450) | **(1,725)** | (1,639) |
| Settlements | **—** | (848) | **—** | — |
| Acquisitions (Note 31) | **3,668** | 1,395 | **109** | 278 |
| Foreign currency translation and other | **12** | 42 | **368** | 142 |
| **Benefit obligations, December 31** | **57,296** | 54,837 | **85,047** | 98,741 |
| **Change in plan assets:** | | | | |
| Fair value of plan assets January 1 | **(53,726)** | (44,989) | **(61,661)** | (51,867) |
| Interest income | **(1,905)** | (1,781) | **(2,378)** | (2,201) |
| Remeasurement | **195** | (6,173) | **6,960** | (3,930) |
| Employer contributions | **(3,330)** | (4,247) | **(5,404)** | (5,302) |
| Benefits paid | **3,330** | 3,450 | **1,725** | 1,639 |
| Settlements | **—** | 848 | **—** | — |
| Acquisitions (Note 31) | **(3,023)** | (690) | **—** | — |
| Foreign currency translation and other | **83** | (144) | **—** | — |
| **Fair value of plan assets, December 31** | **(58,376)** | (53,726) | **(60,758)** | (61,661) |
| **Net benefit (asset)/liability at December 31** | **(1,080)** | 1,111 | **24,289** | 37,080 |

(All amounts in millions unless otherwise stated)

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:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Amounts recognized in net income:** | | | | |
| Current service cost | **3,270** | 2,865 | **2,303** | 2,123 |
| Past service cost | **(4)** | 176 | **(1,016)** | 187 |
| Net interest cost | **105** | 258 | **1,320** | 1,804 |
| Other | **(11)** | — | **360** | — |
| | **3,360** | **3,299** | **2,967** | **4,114** |
| **Amounts recognized in other comprehensive income:** | | | | |
| Losses (gains) from changes in demographic assumptions | **83** | 439 | **(19)** | (2,194) |
| (Gains) losses from changes in financial assumptions | **(4,316)** | 2,246 | **(12,578)** | 8,936 |
| Losses (gains) from changes in experience adjustments | **953** | (21) | **(4,834)** | (6,900) |
| Losses (returns) on plan assets (excluding interest income) | **195** | (6,173) | **6,960** | (3,930) |
| | **(3,085)** | (3,509) | **(10,471)** | (4,088) |
| Net defined benefit loss (gain) before income taxes | **275** | (210) | **(7,504)** | 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:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Discount rate | **4.3%** | 3.5% | **4.4%** | 3.7% |
| Salary growth rate | **5.5%** | 5.4% | **—** | — |
| SAR annual average medical claim cost | | | **22,350** | 20,936 |
| Health care participation rate | | | **90%** | 90% |
| Assumed health care trend rates: | | | | |
| Cost-trend rate | | | **7.0%** | 8.0% |
| Rate to which cost-trend is to decline | | | **5.0%** | 5.0% |
| Year that the rate reaches the ultimate rate | | | **2021** | 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.

(All amounts in millions unless otherwise stated)

Mortality assumptions are reviewed regularly and set based on actuarial advice in accordance with best practice and statistics, adjusted to reflect the experience and improvements to longevity. Relevant life expectancies are as follows:

| | Saudi Plans | | U.S. Plans | |
|---|---|---|---|---|
| **Life expectancy at age:** | **Male** | **Female** | **Male** | **Female** |
| 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.

| | **Change in Assumption** | **Impact on obligation** | **2018** | **2017** |
|---|---|---|---|---|
| Ultimate health care cost-trend rates | Increase by 0.5% | Increase by | **8,066** | 10,129 |
| | Decrease by 0.5% | Decrease by | **(7,095)** | (8,801) |
| Discount rate other benefits | Increase by 0.5% | Decrease by | **(7,463)** | (9,368) |
| | Decrease by 0.5% | Increase by | **8,569** | 10,785 |
| Discount rate pension benefits | Increase by 0.5% | Decrease by | **(3,011)** | (2,914) |
| | Decrease by 0.5% | Increase by | **3,315** | 3,233 |
| Salary growth rate | Increase by 0.5% | Increase by | **1,433** | 1,421 |
| | Decrease by 0.5% | Decrease by | **(1,646)** | (1,691) |
| Annual average medical claim cost | Increase by 5% | Increase by | **3,904** | 4,688 |
| | Decrease by 5% | Decrease by | **(3,896)** | (4,680) |
| Life expectancy | Increase by 1 year | Increase by | **3,371** | 5,280 |
| | Decrease by 1 year | Decrease by | **(3,383)** | (5,340) |
| Health care participation rate | Increase by 5% | Increase by | **1,560** | 1,571 |
| | Decrease by 5% | Decrease by | **(1,635)** | (1,676) |

**Plan assets at December 31 consisted of the following:**

| | **2018** | **2017** |
|---|---|---|
| Cash | **3,008** | 2,610 |
| Time deposits | **68** | 2,107 |
| Equity instruments | **34,433** | 42,608 |
| Investment funds | **42,045** | 34,097 |
| Bonds | **38,520** | 33,178 |
| Sukuk (Shari'a compliant) | **1,060** | 787 |
| | **119,134** | 115,387 |

Plan assets are administered under the oversight of the Company and are held and managed by independent trustees or separate entities, in a manner consistent with fiduciary obligations and principles, acting in the best interest of plan participants. The Company is responsible for the implementation of Board approved 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.

(All amounts in millions unless otherwise stated)

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

| | Asset retirement | Environmental | Other | Total |
|---|---|---|---|---|
| **January 1, 2017** | 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) |
| **December 31, 2017** | 12,134 | 796 | 1,067 | 13,997 |
| Revision to estimate | **886** | **—** | **(234)** | **652** |
| Additional provisions | **418** | **177** | **308** | **903** |
| Unwinding of discount (Note 17) | **320** | **(10)** | **—** | **310** |
| Amounts charged against provisions | **(51)** | **(114)** | **(91)** | **(256)** |
| **December 31, 2018** | **13,707** | **849** | **1,050** | **15,606** |

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.

(All amounts in millions unless otherwise stated)

## 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 |
| | **72,286** | 62,055 |

## 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 |
| | **1,182,137** | 840,483 |
| 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 |
| | **3,681** | 3,603 |

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** |
| **Revenue from contracts with customers** | **777,420** | **403,306** | **—** | **1,180,726** |
| Movement between provisional and final prices | **(1,756)** | **(514)** | **—** | **(2,270)** |
| Other revenue | **569** | **1,783** | **1,329** | **3,681** |
| **External revenue** | **776,233** | **404,575** | **1,329** | **1,182,137** |

| | 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 |
| **Revenue from contracts with customers** | 570,921 | 263,391 | — | 834,312 |
| Movement between provisional and final prices | 2,503 | 65 | — | 2,568 |
| Other revenue | 596 | 1,797 | 1,210 | 3,603 |
| **External revenue** | 574,020 | 265,253 | 1,210 | 840,483 |

(All amounts in millions unless otherwise stated)

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

| | 2018 | 2017 |
|---|---|---|
| Crude oil | **1,847** | 2,646 |
| Refined and chemical products | **55,790** | 31,823 |
| Natural gas and NGLs | **16,037** | 15,680 |
| | **73,674** | 50,149 |

## 22. Finance and other income

| | 2018 | 2017 |
|---|---|---|
| Interest income on time deposits and loans receivable | **2,777** | 1,144 |
| Investment income | **63** | 73 |
| Gain on disposal of previous equity investment in ARLANXEO (Note 31(c)(i)) | **870** | — |
| Dividend income | **143** | 141 |
| Gain on derivative transactions | **4** | 202 |
| Other | **8** | 9 |
| | **3,865** | 1,569 |

## 23. Non-cash and settlement transactions in the Consolidated Statement of Cash Flows

### (a) Settlement transactions

In 2017, the Government and the Company established settlement arrangements for other income related to sales and receivables from specified Government and semi-Government agencies. As a result of these arrangements, during the year ended December 31, 2018, an amount due from the Government of SAR 167,752 (2017: SAR 64,410) was settled by offset against income tax obligations of SAR 167,752 (2017: SAR 56,197) (Note 8(c)) and royalty obligations of nil (2017: SAR 8,213). For the year ended December 31, 2017, cash used in financing activities includes settlement of an amount due from the Government of SAR 56,558 through an additional distribution to the Government.

### (b) Other transactions

Other investing activities includes SAR 2,498 of subordinated shareholder loans with a joint venture that were converted to equity during 2018 (2017: SAR 1,796 converted to equity), SAR 8,195 of finance leases entered into in 2018 (2017: SAR 3,901), and asset retirement provisions of SAR 1,533 (2017: SAR 3,591).

## 24. Commitments

### (a) Capital commitments

Capital expenditures contracted for but not yet incurred are SAR 90,034 and SAR 101,813 at December 31, 2018 and 2017, respectively.

### (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:

(All amounts in millions unless otherwise stated)

| | 2018 | 2017 |
|---|---|---|
| No later than one year | **8,078** | 7,160 |
| Later than one year and no later than five years | **15,625** | 10,347 |
| Later than five years | **11,862** | 4,079 |
| | **35,565** | 21,586 |

**(c) International Maritime Industries ("IMI")**

In 2017, Saudi Aramco Development Company ("SADCO"), a wholly owned subsidiary of the Company, and Lamprell plc ("Lamprell"), Bahri and Hyundai Heavy Industries ("HHI") formed a company, IMI, in which SADCO owns 50.1%, Lamprell owns 20%, Bahri owns 19.9% and HHI owns 10%. The principal activities of IMI are the development, operation, and maintenance of a maritime yard under construction by the Government, as well as, the design, manufacture, maintenance and repair of ships and rigs. The maritime yard will be divided into four main zones and completion of the construction of the individual zones will vary but is expected to be fully completed and operational by 2021. SADCO has committed to fund IMI up to SAR 1,316 through equity contributions. At December 31, 2018, SAR 555 has been drawn down by IMI.

**(d) Saudi Aramco Rowan Offshore Drilling Company ("ARO Drilling")**

In 2017, SADCO and Rowan Rex Limited formed a company, ARO Drilling (Note 33), to provide offshore drilling services to the Company. Saudi Aramco has committed to invest SAR 2,494 at December 31, 2017 through equity and shareholder loans, of which, SAR 2,453 (2017: SAR 1,436) has been drawn down. In addition, Saudi Aramco has committed to lease 20 offshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 52,489.

**(e) Saudi Aramco Nabors Drilling Company ("SANAD")**

In 2017, SADCO and Nabors International Netherlands BV formed a company, SANAD (Note 33), to provide onshore drilling services to the Company. Saudi Aramco has committed to invest SAR 1,553 at December 31, 2017 through equity and shareholder loans, of which, SAR 1,553 has been drawn down. In addition, Saudi Aramco has committed to lease 50 onshore rigs over a ten-year period beginning in 2019 for an estimated value of SAR 24,263.

**(f) Arabian Rig Manufacturing Company (''ARM'')**

In June 2018, SADCO and NOV Downhole Eurasia Limited formed a company, ARM (Note 33), to provide onshore land drilling manufacturing, equipment and services to SANAD and the Middle East and North Africa region at large. Saudi Aramco has committed to invest SAR 225. In addition, SADCO has guaranteed the purchase of 50 onshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 6,754, and has the option to cancel the onshore rig orders for a maximum financial exposure of SAR 1,358.

**(g) Other**

**(i)** In order to comply with a Government directive, Saudi Aramco expects to at a future date sell portions of its equity in Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. (Note 34) through a public offering of shares in Saudi Arabia. Also, in order to comply with a Government directive, Excellent Performance Chemical Company ("EPCC"), a wholly owned subsidiary of Saudi Aramco, expects to at a future date to sell portions of its equity in Sadara (Note 25(a)) through a public offering of shares in Saudi Arabia.

**(ii)** Saudi Aramco is committed to comply with the Government directive to guarantee that Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. shall spend a total of SAR 469 over a ten year period ending December 31, 2025 on social responsibility programs. At December 31, 2018, SAR 420 remains to be spent.

**(iii)** Saudi Aramco has commitments of SAR 370 (2017: SAR 395) to invest in private equity investments both inside and outside the Kingdom. Such commitments can be called on demand.

**(iv)** Saudi Aramco has commitments of SAR 56 (2017: SAR 81) to fund additional loans and acquire additional unlisted equity investments of certain small to mid-sized enterprises in the Kingdom. The commitments can be called by the enterprises upon meeting certain conditions.

## 25. Contingencies

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

Saudi Aramco also has contingent liabilities with respect to the following:

### (a) Sadara

In 2011, EPCC and Dow Saudi Arabia Holding B.V. (together to be referred to as the "Founding Shareholders") signed a shareholder agreement with a term of 99 years to construct and operate a fully-integrated chemicals complex at Jubail II Industrial City in Saudi Arabia ("the Project"). Shortly thereafter, the Founding Shareholders formed Sadara to execute the Project. At December 31, 2018, Saudi Aramco has committed to provide a total financing facility of SAR 25,125 (2017: SAR 25,125) comprised of a shareholder loan and share capital commitment of which SAR 25,125 (2017: SAR 25,125) has been drawn down.

In 2013, Sadara entered into definitive agreements with certain export credit agencies and commercial banks for approximately SAR 39,505 (2017: SAR 39,505) of project financing of which approximately SAR 36,566 (2017: SAR 37,875) was outstanding at December 31, 2018. Saudi Aramco provided guarantees for 65% of such facilities, which will be released upon declaration of project completion on or before December 31, 2020. In December 2018, Sadara successfully satisfied all requirements of the Creditor's Reliable Test ("CRT") in its initial attempt. Completion of the CRT is, among other conditions, a key condition to achieve project completion.

In 2013, Sadara conducted a project sukuk issuance in Saudi Arabia for approximately SAR 7,500 with a final maturity in December 2028. Saudi Aramco provided a guarantee for 65% of the sukuk on a limited recourse basis, which may be called at any time, upon the occurrence of certain trigger events prior to the project completion date. The sukuk proceeds were utilized for funding the Project of which approximately SAR 7,178 (2017: SAR 7,500) was outstanding at December 31, 2018.

With respect to Sadara's fuel and feed-stock allocation, the Company has provided two letters of credit to the Ministry of Energy, Industry and Mineral Resources ("MEIM") for SAR 169 (2017: SAR 169) 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

(All amounts in millions unless otherwise stated)

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:

| | 2018 | 2017 |
|---|---|---|
| Interest rate swaps | **14,404** | 10,575 |
| Commodity swap contracts | **24,146** | 4,541 |
| Currency forward contracts | **15,821** | 4,148 |
| | **54,371** | 19,264 |

## 27. Purchases

| | 2018 | 2017 |
|---|---|---|
| Refined products and chemicals | **147,806** | 101,270 |
| Crude oil | **41,131** | 24,823 |
| | **188,937** | 126,093 |

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

| | 2018 | 2017 |
|---|---|---|
| Salaries and wages | **29,849** | 27,681 |
| Social security costs | **1,804** | 1,713 |
| Post-retirement benefits (Note 18): | | |
| Defined benefit plans | **6,327** | 7,413 |
| Defined contribution plans | **926** | 861 |
| | **38,906** | 37,668 |

(All amounts in millions unless otherwise stated)

## 29. Payments to the Government

| | 2018 | 2017 |
|---|---|---|
| Income taxes (Note 8(c)) | **180,119** | 172,753 |
| Royalties (Note 23(a)) | **213,513** | 141,233 |
| Dividends (Note 23(a)) | **217,500** | 187,849 |
| | **611,132** | 501,835 |

## 30. Related party transactions

### (a) Transactions

| | 2018 | 2017 |
|---|---|---|
| **Joint ventures:** | | |
| Revenue from sales | **4,159** | 10,620 |
| Other revenue (Note 21) | **30** | 79 |
| Interest income | **49** | 90 |
| Service expenses | **26** | 79 |
| **Associates:** | | |
| Revenue from sales | **39,356** | 28,789 |
| Other revenue (Note 21) | **281** | 356 |
| Interest income | **113** | 98 |
| Purchases | **39,480** | 27,844 |
| Service expenses | **195** | 244 |
| **Government and semi-Government agencies:** | | |
| Sales | **50,111** | 45,755 |
| Other income related to sales | **152,641** | 150,176 |
| Other revenue (Note 21) | **731** | 1,076 |
| Purchases | **3,394** | 3,266 |
| Service expenses | **323** | 611 |

Goods are purchased and sold according to supply agreements in force. Note 25 includes additional information on loans to a joint venture and an associate.

### (b) Balances

| | 2018 | 2017 |
|---|---|---|
| **Joint ventures:** | | |
| Other assets and receivables (Note 9) | **4** | 1,930 |
| Trade receivables | **176** | — |
| Interest receivable | **—** | 203 |
| **Associates:** | | |
| Other assets and receivables (Note 9) | **3,296** | 3,220 |
| Trade receivables | **10,388** | 9,355 |
| Trade and other payables (Note 20) | **4,492** | 4,166 |
| **Government and semi-Government agencies:** | | |
| Trade receivables | **8,764** | 6,679 |
| Due from the Government (Note 13) | **48,140** | 38,991 |
| Trade and other payables (Note 20) | **2,269** | 2,629 |

Sales to and receivables from Government and semi-Government agencies are made on specific terms within the relevant regulatory framework in the Kingdom.

(All amounts in millions unless otherwise stated)

### (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:

| | 2018 | 2017 |
|---|---|---|
| Short-term employee benefits | **57** | 50 |
| Post-employment benefits | **27** | 66 |
| Other long-term benefits | **10** | 8 |
| Termination benefits | **17** | — |
| | **111** | 124 |

### (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.

(All amounts in millions unless otherwise stated)

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 | 3,534 |

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.

(All amounts in millions unless otherwise stated)

The following table summarizes the goodwill and the fair values of ARLANXEO's assets and liabilities acquired on December 31, 2018:

| | |
|---|---|
| Cash and cash equivalents | 528 |
| Accounts receivable and other assets | 2,983 |
| Inventories | 3,112 |
| Property, plant and equipment | 9,725 |
| Intangible assets | 268 |
| Trade and other payables | (2,396) |
| Borrowings | (511) |
| Post-employment benefit obligations and provisions | (1,038) |
| Other liabilities | (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 | 6,106 |

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.

(All amounts in millions unless otherwise stated)

The following table summarizes the fair values of Motiva's assets and liabilities acquired on May 1, 2017:

| | |
|---|---|
| Cash and cash equivalents | 2,790 |
| Accounts receivable and other assets | 5,063 |
| Inventories | 5,434 |
| Property, plant and equipment | 33,724 |
| Intangible assets | 3,176 |
| Accounts payable and other liabilities | (12,477) |
| Accounts payable to related parties | (1,114) |
| Borrowings | (12,431) |
| Total identifiable net assets at fair value | 24,165 |
| Acquisition date fair value of previously held interest | (20,824) |
| Net purchase consideration | 3,341 |

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.

(All amounts in millions unless otherwise stated)

## 33. Subsidiaries of Saudi Arabian Oil Company

| | Principal Business Activity | Place of business / country of incorporation | Conventional financial assets as of December 31, 2018[(1)] | Conventional financial liabilities as of December 31, 2018[(1)] | Interest income from conventional financial assets for the year ended December 31, 2018[(1)] |
|---|---|---|---|---|---|
| **A. Wholly owned:** | | | | | |
| 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** |

(All amounts in millions unless otherwise stated)

| | Principal Business Activity | Place of business / country of incorporation | Conventional financial assets as of December 31, 2018[(1)] | Conventional financial liabilities as of December 31, 2018[(1)] | Interest income from conventional financial assets for the year ended December 31, 2018[(1)] |
|---|---|---|---|---|---|
| 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** | **—** | **—** |

(All amounts in millions unless otherwise stated)

| | Principal Business Activity | Place of business / country of incorporation | Conventional financial assets as of December 31, 2018(1) | Conventional financial liabilities as of December 31, 2018(1) | Interest income from conventional financial assets for the year ended December 31, 2018(1) |
|---|---|---|---|---|---|
| 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 | | | |

| | Principal Business Activity | Place of business / country of incorporation | Conventional financial assets as of December 31, 2018[1] | Conventional financial liabilities as of December 31, 2018[1] | Interest income from conventional financial assets for the year ended December 31, 2018[1] |
|---|---|---|---|---|---|
| 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. Non-wholly owned** | | | | | |
| 30% ownership of Arabian Rig Manufacturing Company[2] | Manufacturing | Saudi Arabia | **—** | **—** | **—** |
| 49% ownership of Aramco Training Services Company[2] | Training | USA | **1** | **—** | **—** |
| 50% ownership of ARLANXEO-TSRC[2] | 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[2] | Drilling | Saudi Arabia | **794** | **2,085** | **8** |
| 50% ownership of Saudi Aramco Rowan Offshore Drilling Company[2] | 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. | Purchasing and sale of petroleum goods | The Independent State of Samoa | **—** | **—** | **—** |

(1) Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.
(2) Agreements and constitutive documents provide Saudi Aramco control.

(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[1] | Conventional financial liabilities as of December 31, 2018[1] | Interest income from conventional financial assets for the year ended December 31, 2018[1] |
|---|---|---|---|---|---|---|
| Al-Khafji Joint Operations | Oil and gas exploration and production | 50% | Saudi-Kuwaiti Partitioned Zone | — | — | — |
| Fadhili Plant Cogeneration Company | Power generation | 30% | Saudi Arabia | **3** | **929** | — |
| Maasvlakte Olie Terminal C.V. | Tank storage | 9.61% | Netherlands | — | — | — |
| Maasvlakte Olie Terminal N.V. | Tank storage | 16.67% | Netherlands | — | — | — |
| Pengerang Refining Company Sdn. Bhd. | Refining | 50% | Malaysia | **577** | **1,548** | **2** |
| Pengerang Petrochemical Company Sdn. Bhd. | Petrochemical | 50% | Malaysia | **110** | **509** | **1** |
| Power Cogeneration Plant Company, LLC | Power generation | 50% | Saudi Arabia | **74** | **932** | **58** |
| Saudi Aramco Mobil Refinery Company Ltd. | Refining | 50% | Saudi Arabia | **1,123** | **722** | **23** |
| Saudi Aramco Shell Refinery Company | Refining | 50% | Saudi Arabia | **268** | **308** | **46** |
| Saudi Aramco Total Refining and Petrochemical Company[2] | Refining and petrochemical | 62.50% | Saudi Arabia | **1,715** | **13,125** | **62** |
| Yanbu Aramco Sinopec Refining Company Limited[2] | Refining | 62.50% | Saudi Arabia | **317** | **7,989** | — |

(1) Represents Saudi Aramco's share of conventional financial assets, financial liabilities and interest income.

(2) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint operation does not qualify as a subsidiary.

# SAUDI ARABIAN OIL COMPANY

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2020 (UNAUDITED)**

pwc

# *Report on review of the condensed consolidated interim financial report*

To the shareholders of Saudi Arabian Oil Company

**Introduction**

We have reviewed the accompanying condensed consolidated balance sheet of Saudi Arabian Oil Company and its subsidiaries as at September 30, 2020 and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month and nine-month periods then ended and the related condensed consolidated statement of changes in equity for the nine-month period then ended and explanatory notes (the "condensed consolidated interim financial report"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial report in accordance with International Accounting Standard 34, 'Interim financial reporting', that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed consolidated interim financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity', that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial report is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting', that is endorsed in the Kingdom of Saudi Arabia.

**PricewaterhouseCoopers**

Bader I. Benmohareb
License Number 471

November 2, 2020

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# Condensed consolidated statement of income

| | Note | SAR 3rd quarter 2020 | SAR 3rd quarter 2019 | SAR Nine months 2020 | SAR Nine months 2019 | USD* 3rd quarter 2020 | USD* 3rd quarter 2019 | USD* Nine months 2020 | USD* Nine months 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 11 | **200,059** | 266,038 | **548,857** | 822,143 | **53,349** | 70,944 | **146,362** | 219,239 |
| Other income related to sales | | **28,535** | 38,608 | **69,436** | 102,444 | **7,609** | 10,295 | **18,516** | 27,318 |
| **Revenue and other income related to sales** | | **228,594** | 304,646 | **618,293** | 924,587 | **60,958** | 81,239 | **164,878** | 246,557 |
| Royalties and other taxes | | **(21,370)** | (43,825) | **(67,120)** | (137,983) | **(5,699)** | (11,687) | **(17,899)** | (36,796) |
| Purchases | | **(50,710)** | (57,292) | **(126,257)** | (163,185) | **(13,523)** | (15,278) | **(33,669)** | (43,516) |
| Producing and manufacturing | | **(23,852)** | (15,857) | **(56,713)** | (42,173) | **(6,360)** | (4,228) | **(15,123)** | (11,246) |
| Selling, administrative and general | | **(11,955)** | (7,139) | **(29,154)** | (24,061) | **(3,188)** | (1,904) | **(7,774)** | (6,416) |
| Exploration | | **(3,283)** | (1,862) | **(6,267)** | (5,389) | **(875)** | (496) | **(1,671)** | (1,437) |
| Research and development | | **(841)** | (498) | **(1,785)** | (1,449) | **(224)** | (132) | **(476)** | (386) |
| Depreciation and amortization | 6,7 | **(20,537)** | (12,977) | **(52,127)** | (37,274) | **(5,477)** | (3,461) | **(13,901)** | (9,940) |
| **Operating costs** | | **(132,548)** | (139,450) | **(339,423)** | (411,514) | **(35,346)** | (37,186) | **(90,513)** | (109,737) |
| **Operating income** | | **96,046** | 165,196 | **278,870** | 513,073 | **25,612** | 44,053 | **74,365** | 136,820 |
| Share of results of joint ventures and associates | | **(569)** | (1,011) | **(4,302)** | (2,443) | **(152)** | (269) | **(1,147)** | (651) |
| Finance and other income | | **681** | 2,705 | **2,652** | 5,873 | **182** | 721 | **707** | 1,566 |
| Finance costs | | **(3,407)** | (1,623) | **(6,906)** | (4,402) | **(909)** | (433) | **(1,842)** | (1,174) |
| **Income before income taxes and zakat** | | **92,751** | 165,267 | **270,314** | 512,101 | **24,733** | 44,072 | **72,083** | 136,561 |
| **Income taxes and zakat** | 8 | **(48,542)** | (85,428) | **(139,006)** | (256,391) | **(12,944)** | (22,781) | **(37,068)** | (68,371) |
| **Net income** | | **44,209** | 79,839 | **131,308** | 255,710 | **11,789** | 21,291 | **35,015** | 68,190 |
| **Net income (loss) attributable to** | | | | | | | | | |
| Shareholders' equity | | **44,278** | 79,788 | **133,180** | 255,805 | **11,807** | 21,277 | **35,514** | 68,215 |
| Non-controlling interests | | **(69)** | 51 | **(1,872)** | (95) | **(18)** | 14 | **(499)** | (25) |
| | | **44,209** | 79,839 | **131,308** | 255,710 | **11,789** | 21,291 | **35,015** | 68,190 |
| **Earnings per share (basic and diluted)** | | **0.22** | 0.40 | **0.67** | 1.28 | **0.06** | 0.11 | **0.18** | 0.34 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Condensed consolidated statement of comprehensive income

| | | SAR | | | | USD* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
| **Net income** | | **44,209** | 79,839 | **131,308** | 255,710 | **11,789** | 21,291 | **35,015** | 68,190 |
| **Other comprehensive income (loss), net of tax** | 9 | | | | | | | | |
| **Items that will not be reclassified to net income** | | | | | | | | | |
| Remeasurement of post-employment benefit obligations | | **3,306** | (2,569) | **(6,912)** | (7,237) | **882** | (684) | **(1,843)** | (1,929) |
| Change in post-employment benefit deferred tax asset due to new income tax rate | | **-** | (284) | **-** | (284) | **-** | (76) | **-** | (76) |
| Changes in fair value of equity investments classified as fair value through other comprehensive income | | **228** | 427 | **(1,006)** | 571 | **61** | 114 | **(268)** | 152 |
| **Items that may be reclassified subsequently to net income** | | | | | | | | | |
| Cash flow hedges and other | | **30** | (144) | **(696)** | (626) | **8** | (39) | **(186)** | (167) |
| Changes in fair value of debt securities classified as fair value through other comprehensive income | | **(4)** | 9 | **(16)** | 69 | **(1)** | 2 | **(4)** | 18 |
| Share of other comprehensive income (loss) of joint ventures and associates | | **100** | (257) | **(599)** | (721) | **26** | (68) | **(160)** | (192) |
| Currency translation differences | | **1,548** | (1,476) | **165** | (2,260) | **413** | (394) | **44** | (603) |
| | | **5,208** | (4,294) | **(9,064)** | (10,488) | **1,389** | (1,145) | **(2,417)** | (2,797) |
| **Total comprehensive income** | | **49,417** | 75,545 | **122,244** | 245,222 | **13,178** | 20,146 | **32,598** | 65,393 |
| **Total comprehensive income (loss) attributable to** | | | | | | | | | |
| Shareholders' equity | | **49,202** | 75,850 | **124,484** | 245,982 | **13,120** | 20,227 | **33,195** | 65,595 |
| Non-controlling interests | | **215** | (305) | **(2,240)** | (760) | **58** | (81) | **(597)** | (202) |
| | | **49,417** | 75,545 | **122,244** | 245,222 | **13,178** | 20,146 | **32,598** | 65,393 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Condensed consolidated balance sheet

| | Note | SAR | | USD* | |
|---|---|---|---|---|---|
| | | **September 30, 2020** | December 31, 2019 | **September 30, 2020** | December 31, 2019 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | **1,195,717** | 982,014 | **318,858** | 261,870 |
| Intangible assets | 7 | **164,552** | 30,122 | **43,880** | 8,033 |
| Investments in joint ventures and associates | | **64,460** | 19,738 | **17,189** | 5,263 |
| Deferred income tax assets | | **15,554** | 12,728 | **4,148** | 3,394 |
| Other assets and receivables | | **32,309** | 21,372 | **8,616** | 5,699 |
| Investments in securities | | **21,631** | 19,956 | **5,768** | 5,322 |
| | | **1,494,223** | 1,085,930 | **398,459** | 289,581 |
| **Current assets** | | | | | |
| Inventories | | **51,384** | 42,607 | **13,703** | 11,362 |
| Trade receivables | | **84,366** | 93,526 | **22,498** | 24,940 |
| Due from the Government | | **32,152** | 36,781 | **8,574** | 9,808 |
| Other assets and receivables | | **14,783** | 12,109 | **3,942** | 3,230 |
| Short-term investments | | **5,734** | 45,467 | **1,529** | 12,125 |
| Cash and cash equivalents | | **197,649** | 177,706 | **52,706** | 47,388 |
| | | **386,068** | 408,196 | **102,952** | 108,853 |
| **Total assets** | | **1,880,291** | 1,494,126 | **501,411** | 398,434 |
| **Equity and liabilities** | | | | | |
| **Shareholders' equity** | | | | | |
| Share capital | | **60,000** | 60,000 | **16,000** | 16,000 |
| Additional paid-in capital | | **26,981** | 26,981 | **7,195** | 7,195 |
| Treasury shares | | **(3,750)** | (3,750) | **(1,000)** | (1,000) |
| Retained earnings: | | | | | |
| Unappropriated | | **914,962** | 943,758 | **243,990** | 251,669 |
| Appropriated | | **6,000** | 6,000 | **1,600** | 1,600 |
| Other reserves | 9 | **391** | 2,076 | **105** | 553 |
| | | **1,004,584** | 1,035,065 | **267,890** | 276,017 |
| **Non-controlling interests** | | **109,153** | 11,170 | **29,107** | 2,979 |
| | | **1,113,737** | 1,046,235 | **296,997** | 278,996 |
| **Non-current liabilities** | | | | | |
| Borrowings | 10 | **411,552** | 150,690 | **109,747** | 40,184 |
| Deferred income tax liabilities | | **53,859** | 44,471 | **14,362** | 11,859 |
| Post-employment benefit obligations | | **50,960** | 21,174 | **13,589** | 5,646 |
| Provisions and other liabilities | | **21,748** | 15,985 | **5,800** | 4,263 |
| | | **538,119** | 232,320 | **143,498** | 61,952 |
| **Current liabilities** | | | | | |
| Trade and other payables | | **86,973** | 78,231 | **23,193** | 20,862 |
| Obligations to the Government: | | | | | |
| Income taxes and zakat | 8 | **38,585** | 62,243 | **10,289** | 16,598 |
| Dividend payable | | **-** | 35,475 | **-** | 9,460 |
| Royalties | | **6,107** | 14,727 | **1,629** | 3,927 |
| Borrowings | 10 | **96,770** | 24,895 | **25,805** | 6,639 |
| | | **228,435** | 215,571 | **60,916** | 57,486 |
| | | **766,554** | 447,891 | **204,414** | 119,438 |
| **Total equity and liabilities** | | **1,880,291** | 1,494,126 | **501,411** | 398,434 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Condensed consolidated statement of changes in equity

| | SAR | | | | | | | | USD* |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | | | | |
| | | | | Retained earnings | | | | | |
| | Share capital | Additional paid-in capital | Treasury shares | Unappropriated | Appropriated | Other reserves (Note 9) | Non-controlling interests | Total | Total |
| **Balance at January 1, 2019** | 60,000 | 26,981 | - | 920,625 | 6,000 | 3,176 | 11,653 | 1,028,435 | 274,249 |
| Net income (loss) | - | - | - | 255,805 | - | - | (95) | 255,710 | 68,190 |
| Other comprehensive loss | - | - | - | - | - | (9,823) | (665) | (10,488) | (2,797) |
| Total comprehensive income (loss) | - | - | - | 255,805 | - | (9,823) | (760) | 245,222 | 65,393 |
| Transfer of post-employment benefit obligations remeasurement | - | - | - | (7,521) | - | 7,521 | - | - | - |
| Dividends (Note 18) | - | - | - | (224,175) | - | - | - | (224,175) | (59,780) |
| Dividends to non-controlling interests | - | - | - | - | - | - | (36) | (36) | (10) |
| **Balance at September 30, 2019** | 60,000 | 26,981 | - | 944,734 | 6,000 | 874 | 10,857 | 1,049,446 | 279,852 |
| **Balance at January 1, 2020** | **60,000** | **26,981** | **(3,750)** | **943,758** | **6,000** | **2,076** | **11,170** | **1,046,235** | **278,996** |
| Net income (loss) | **-** | **-** | **-** | **133,180** | **-** | **-** | **(1,872)** | **131,308** | **35,015** |
| Other comprehensive loss | **-** | **-** | **-** | **-** | **-** | **(8,696)** | **(368)** | **(9,064)** | **(2,417)** |
| Total comprehensive income (loss) | **-** | **-** | **-** | **133,180** | **-** | **(8,696)** | **(2,240)** | **122,244** | **32,598** |
| Acquisition of subsidiary (Note 4) | **-** | **-** | **-** | **-** | **-** | **-** | **100,739** | **100,739** | **26,864** |
| Transfer of post-employment benefit obligations remeasurement | **-** | **-** | **-** | **(6,577)** | **-** | **6,577** | **-** | **-** | **-** |
| Share-based compensation | **-** | **-** | **-** | **(9)** | **-** | **434** | **-** | **425** | **113** |
| Dividends (Note 18) | **-** | **-** | **-** | **(155,390)** | **-** | **-** | **-** | **(155,390)** | **(41,437)** |
| Dividends to non-controlling interests and other | **-** | **-** | **-** | **-** | **-** | **-** | **(516)** | **(516)** | **(137)** |
| **Balance at September 30, 2020** | **60,000** | **26,981** | **(3,750)** | **914,962** | **6,000** | **391** | **109,153** | **1,113,737** | **296,997** |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Condensed consolidated statement of cash flows

| | | SAR | | | | USD* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
| **Income before income taxes and zakat** | | **92,751** | 165,267 | **270,314** | 512,101 | **24,733** | 44,072 | **72,083** | 136,561 |
| **Adjustments to reconcile income before income taxes and zakat to net cash provided by operating activities** | | | | | | | | | |
| Depreciation and amortization | 6,7 | **20,537** | 12,977 | **52,127** | 37,274 | **5,477** | 3,461 | **13,901** | 9,940 |
| Exploration and evaluation costs written off | | **2,328** | 835 | **3,424** | 2,374 | **620** | 223 | **913** | 633 |
| Gain on remeasurement of existing interest in equity investments | | **-** | (1,278) | **-** | (1,278) | **-** | (341) | **-** | (341) |
| Share of results of joint ventures and associates | | **569** | 1,011 | **4,302** | 2,443 | **152** | 269 | **1,147** | 651 |
| Finance income | | **(681)** | (1,411) | **(2,315)** | (4,125) | **(181)** | (376) | **(617)** | (1,100) |
| Finance costs | | **3,407** | 1,623 | **6,906** | 4,402 | **909** | 433 | **1,842** | 1,174 |
| Dividends from investments in securities | | **-** | (7) | **(332)** | (439) | **-** | (2) | **(89)** | (117) |
| Change in fair value of investments through profit or loss | | **65** | (123) | **549** | (339) | **17** | (32) | **146** | (90) |
| Change in joint ventures and associates inventory profit elimination | | **211** | (3) | **(52)** | 84 | **56** | (1) | **(14)** | 22 |
| Other | | **(924)** | (321) | **257** | (124) | **(247)** | (86) | **68** | (33) |
| **Change in working capital** | | | | | | | | | |
| Inventories | | **6,653** | 3,485 | **20,413** | 1,901 | **1,774** | 929 | **5,443** | 507 |
| Trade receivables | | **(18,247)** | 12,492 | **22,989** | 5,034 | **(4,866)** | 3,332 | **6,130** | 1,343 |
| Due from the Government | | **(14,157)** | (1,109) | **4,629** | 316 | **(3,776)** | (296) | **1,234** | 84 |
| Other assets and receivables | | **1,187** | 2,077 | **1,322** | 4,639 | **317** | 554 | **353** | 1,237 |
| Trade and other payables | | **2,163** | 1,107 | **(19,664)** | (3,221) | **576** | 295 | **(5,244)** | (859) |
| Royalties payable | | **573** | (563) | **(8,620)** | 565 | **154** | (150) | **(2,298)** | 150 |
| **Other changes** | | | | | | | | | |
| Other assets and receivables | | **2,009** | (1,895) | **(1,191)** | (7,627) | **535** | (506) | **(318)** | (2,034) |
| Provisions and other liabilities | | **266** | (250) | **411** | 487 | **72** | (67) | **110** | 130 |
| Post-employment benefit obligations | | **228** | 192 | **1,383** | 1,254 | **61** | 51 | **369** | 334 |
| Settlement of income, zakat and other taxes | 8(c) | **(28,457)** | (86,464) | **(155,994)** | (251,390) | **(7,589)** | (23,057) | **(41,598)** | (67,037) |
| **Net cash provided by operating activities** | | **70,481** | 107,642 | **200,858** | 304,331 | **18,794** | 28,705 | **53,561** | 81,155 |
| Capital expenditures | 5 | **(23,934)** | (30,352) | **(75,106)** | (84,615) | **(6,383)** | (8,094) | **(20,028)** | (22,564) |
| Cash acquired on acquisition of subsidiary | 4 | **-** | - | **27,515** | - | **-** | - | **7,337** | - |
| Acquisition of affiliates, net of cash acquired | | **-** | (1,132) | **-** | (1,517) | **-** | (302) | **-** | (405) |
| Distributions from joint ventures and associates | | **1,631** | 40 | **1,945** | 700 | **435** | 11 | **519** | 187 |
| Additional investments in joint ventures and associates | | **(26)** | (25) | **(302)** | (346) | **(7)** | (6) | **(81)** | (92) |
| Dividends from investments in securities | | **-** | 7 | **332** | 439 | **-** | 2 | **89** | 117 |
| Interest received | | **667** | 1,026 | **3,247** | 3,489 | **178** | 273 | **866** | 930 |
| Net investments in securities | | **(258)** | 24 | **(877)** | (583) | **(69)** | 7 | **(234)** | (155) |
| Net maturities (purchases) of short-term investments | | **4,797** | (724) | **48,138** | (45,982) | **1,279** | (194) | **12,837** | (12,262) |
| **Net cash (used in) provided by investing activities** | | **(17,123)** | (31,136) | **4,892** | (128,415) | **(4,567)** | (8,303) | **1,305** | (34,244) |
| Dividends | | **(70,320)** | (50,212) | **(190,865)** | (224,175) | **(18,752)** | (13,390) | **(50,897)** | (59,780) |
| Dividends paid to non-controlling interests | | **(215)** | (14) | **(229)** | (36) | **(57)** | (4) | **(61)** | (10) |
| Interest paid | | **(2,599)** | (953) | **(5,992)** | (3,329) | **(693)** | (254) | **(1,598)** | (888) |
| Proceeds from borrowings | | **42,118** | 1,211 | **52,043** | 49,174 | **11,232** | 323 | **13,878** | 13,113 |
| Repayments of borrowings | | **(31,286)** | (2,921) | **(40,764)** | (8,860) | **(8,343)** | (780) | **(10,870)** | (2,363) |
| **Net cash used in financing activities** | | **(62,302)** | (52,889) | **(185,807)** | (187,226) | **(16,613)** | (14,105) | **(49,548)** | (49,928) |
| **Net (decrease) increase in cash and cash equivalents** | | **(8,944)** | 23,617 | **19,943** | (11,310) | **(2,386)** | 6,297 | **5,318** | (3,017) |
| Cash and cash equivalents at beginning of the period | | **206,593** | 148,225 | **177,706** | 183,152 | **55,092** | 39,527 | **47,388** | 48,841 |
| **Cash and cash equivalents at end of the period** | | **197,649** | 171,842 | **197,649** | 171,842 | **52,706** | 45,824 | **52,706** | 45,824 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Notes to the condensed consolidated interim financial report

## 1. General information

The Saudi Arabian Oil Company (the "Company"), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the "Kingdom"), is engaged in prospecting, exploring, drilling and extracting hydrocarbon substances ("Upstream") and processing, manufacturing, refining and marketing these hydrocarbon substances ("Downstream"). The Company was formed on November 13, 1988 by Royal Decree No. M/8; however, its history dates back to May 29, 1933 when the Saudi Arabian Government (the "Government") granted a concession to the Company's predecessor the right to, among other things, explore the Kingdom for hydrocarbons. Effective January 1, 2018, Council of Minister's Resolution No. 180, dated 1/4/1439H (December 19, 2017), converted the Company to a Saudi Joint Stock Company with new Bylaws.

On December 11, 2019, the Company completed its Initial Public Offering ("IPO") and its ordinary shares were listed on the Saudi Stock Exchange ("Tadawul"). In connection with the IPO, the Government sold an aggregate of 3.45 billion ordinary shares, or 1.73% of the Company's share capital.

The condensed consolidated interim financial report of the Company and its subsidiaries (together "Saudi Aramco") was approved by the Board of Directors on November 2, 2020.

## 2. Basis of preparation and other significant accounting policies

The condensed consolidated interim financial report has been prepared in accordance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting, that is endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). This condensed consolidated interim financial report is consistent with the accounting policies and methods of computation and presentation set out in Saudi Aramco's December 31, 2019 consolidated financial statements, except for new and amended standards disclosed below.

The results for the interim periods are unaudited and include all adjustments necessary for a fair presentation of the results for the periods presented. This condensed consolidated interim financial report should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom, and other standards and pronouncements issued by SOCPA. The consolidated financial statements for the year ended December 31, 2019 are also in compliance with IFRS as issued by the International Accounting Standards Board ("IASB").

Translations from SAR to USD presented as supplementary information in the Condensed Consolidated Statement of Income, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Changes in Equity, and Condensed Consolidated Statement of Cash Flows at September 30, 2020 and December 31, 2019 and for the three-month and nine-month periods ended September 30, 2020 and 2019, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the balance sheet dates.

In response to the novel Coronavirus ("COVID-19"), which has caused global economic disruption, Saudi Aramco has implemented active prevention programs at its sites and contingency plans in order to minimize the risks related to COVID-19 and to continue business operations. Crude oil accounts for a substantial portion of the Company's revenue. Crude oil is also a fundamental feedstock to the Company's Downstream operations. The COVID-19 pandemic has had an adverse impact on oil demand, which has led to an oversupply in global markets during the second quarter of 2020 that resulted in a reduction in crude oil prices. The markets showed signs of recovery during the third quarter as governments began to ease restrictions and the improved economic activity translated into increased crude oil demand and higher prices when compared with the second quarter. The increased prices have positively impacted Saudi Aramco's financial performance during the third quarter of 2020. Management has taken measures to optimize spending, which resulted in reducing operational and capital expenditures during the period. Additionally, the Company entered into a one-year term loan facility (Note 10) to ensure sufficient funding to meet forecasted cash flow requirements and limit any potential financial exposure. Management continues monitoring the situation, including the impact on Saudi Aramco's results of operations and cash flows and will take further actions as necessary. Additionally, management has considered the potential impact of the COVID-19 pandemic on Saudi Aramco's significant accounting judgements and estimates and there are no changes to the significant judgements and estimates disclosed in the December 31, 2019 consolidated financial statements, other than those disclosed in this condensed consolidated interim financial report.

### (a) Fiscal regime changes

On September 17, 2019, the following significant changes to the fiscal regime under which the Company operates were announced effective January 1, 2020:

(i) The Company and the Government executed an amendment to the Concession Agreement, which changed the effective royalty rate applied to crude oil production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 15% (from 20%) applied to prices up to $70 per barrel, increasing to 45% (from 40%) applied to prices above $70 per barrel and 80% (from 50%) applied to prices above $100 per barrel.

(ii) LPGs and certain other products were added to the price equalization mechanism to compensate the Company for revenue directly foregone as a result of the Company's compliance with the Government mandates related to domestic sales of those products by the Company.

(iii) The tax rate applicable to the Company's Downstream activities was reduced from the 50% rate applicable to qualified domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law"). The new rate is conditioned on the Company separating its Downstream activities under the control of one or more separate wholly owned subsidiaries before December 31, 2024, otherwise, the Company's Downstream activities will be retroactively taxed at 50%. The Company expects to transfer all its Downstream activities into a separate legal entity or entities within the period specified (Note 8).

(iv) The Tax Law was amended during the previous quarter, effective January 1, 2020, whereby shares held directly or indirectly in listed companies on the Tadawul by taxpayers engaged in oil and hydrocarbon activities are exempt from the application of the corporate income tax. As a result, the Company's ownership interests in SABIC, Rabigh Refining and Petrochemical Company ("Petro Rabigh"), National Shipping Company of Saudi Arabia ("Bahri") and Saudi Electricity Company ("SEC") are now subject to zakat (Note 8).

**(b) New or amended standards**

(i) Saudi Aramco adopted the following IASB pronouncement, as endorsed in the Kingdom, effective for annual periods beginning on or after January 1, 2020:

In September 2019, the IASB amended IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, and IFRS 9, Financial Instruments, which modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the Interbank Offered Rate ("IBOR") reform in which the London Interbank Offered Rate ("LIBOR") interest benchmark will cease after 2021. The amendments, part of Phase 1 of a two-phase project for IBOR reform, also require companies to provide additional information about their hedging relationships that are directly affected by these uncertainties. IBOR reforms and expectation of cessation of LIBOR will impact Saudi Aramco's current risk management strategy and possibly accounting for certain financial instruments used for hedging. Saudi Aramco has recognized the following hedging instruments at fair value (Note 3) which are exposed to the impact of LIBOR with a nominal value of SAR 11,745:

- Financial Liabilities: SAR 1,073

Saudi Aramco uses financial instruments as part of its risk management strategy to manage exposures arising from variation of interest rates that could affect net income or other comprehensive income and applies hedge accounting to these instruments. Saudi Aramco has certain borrowings where the reference rate is linked to LIBOR. Saudi Aramco is establishing a transition plan that follows a risk management approach to ensure a smooth transition to alternative reference rates. There is no material impact on Saudi Aramco's condensed consolidated interim financial report from adopting the Phase 1 amendments to IAS 39, IFRS 7, and IFRS 9.

(ii) The following IASB pronouncement that is endorsed in the Kingdom will become effective for annual periods beginning on or after January 1, 2021 has not been early adopted by Saudi Aramco:

On August 27, 2020, the IASB issued amendments to IAS 39, Financial Instruments: Recognition and Measurement, IFRS 4, Insurance Contracts, IFRS 7, Financial Instruments: Disclosures, IFRS 9, Financial Instruments, and IFRS 16, Leases as part of Phase 2 of a two-phase project for IBOR reform, which address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. These amendments include: (1) providing practical expedients in relation to accounting for instruments to which the amortised cost measurement applies by updating the effective interest rate to account for a change in the basis for determining the contractual cash flows without adjusting the carrying amount; (2) additional temporary exceptions from applying specific hedge accounting requirements, including permitted changes to hedge designation without the hedging relationship being discontinued when Phase 1 reliefs cease; and (3) additional disclosures related to IBOR reform, including managing the transition to alternative benchmark rates, its progress and the risks arising from the transition, quantitative information about financial instruments that have yet to transition to new benchmarks and changes in the entity's risk management strategy where this arises. Saudi Aramco is currently undergoing an exercise to assess the impact of these Phase 2 amendments.

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.

**(c) Reclassifications**

Certain comparative amounts in the Condensed Consolidated Statement of Income for the three-month and nine-month periods ended September 30, 2019 have been reclassified to conform to the current period presentation. Such reclassifications did not impact the previously reported net income. These represent certain sales of crude oil and related purchases of refined products in the amount of SAR 2,650 and SAR 8,035, respectively, which are presented in the Condensed Consolidated Statement of Income as revenue and purchases, reflecting current trading arrangements.

**(d) Inventories**

During the three-month and nine-month periods ended September 30, 2020, a portion of the inventory purchased from third parties by certain subsidiaries was written-down to its net realizable value.

## 3. Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco's financial assets and liabilities that are measured and recognized at amortized cost are not materially different from their carrying amounts at the end of the reporting period.

The following table presents Saudi Aramco's assets and liabilities measured and recognized at fair value at September 30, 2020 and December 31, 2019, based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at September 30, 2020 and December 31, 2019. There were no changes made to any of the valuation techniques and valuation processes applied as of December 31, 2019 and changes in unobservable inputs are not expected to materially impact the fair value.

| **Assets** | Level 1[i] | Level 2[ii] | Level 3[iii] | **Total** |
|---|---|---|---|---|
| **September 30, 2020:** | | | | |
| Investments in securities: | | | | |
| Equity securities at Fair Value Through Other Comprehensive Income ("FVOCI") | **6,813** | **481** | **1,422** | **8,716** |
| Debt securities at FVOCI | **31** | **6,815** | **-** | **6,846** |
| Equity securities at Fair Value Through Profit Or Loss ("FVPL") | **852** | **1,485** | **3,110** | **5,447** |
| Trade receivables related to contracts with provisional pricing arrangements | **-** | **-** | **53,826** | **53,826** |
| | **7,696** | **8,781** | **58,358** | **74,835** |
| Other assets and receivables: | | | | |
| Commodity swaps | **21** | **90** | **35** | **146** |
| Currency forward contracts | **-** | **306** | **-** | **306** |
| | **21** | **396** | **35** | **452** |
| **Total assets** | **7,717** | **9,177** | **58,393** | **75,287** |
| December 31, 2019: | | | | |
| Investments in securities: | | | | |
| Equity securities at FVOCI | 8,246 | - | 1,244 | 9,490 |
| Debt securities at FVOCI | 1 | 4,563 | - | 4,564 |
| Equity securities at FVPL | - | 1,265 | 4,918 | 6,183 |
| Trade receivables related to contracts with provisional pricing arrangements | - | - | 75,723 | 75,723 |
| | 8,247 | 5,828 | 81,885 | 95,960 |
| Other assets and receivables: | | | | |
| Interest rate swaps | - | 13 | - | 13 |
| Commodity swaps | - | 288 | - | 288 |
| Currency forward contracts | - | 30 | - | 30 |
| | - | 331 | - | 331 |
| Total assets | 8,247 | 6,159 | 81,885 | 96,291 |

| **Liabilities** | Level 1[i] | Level 2[ii] | Level 3[iii] | **Total** |
|---|---|---|---|---|
| **September 30, 2020:** | | | | |
| Trade and other payables: | | | | |
| Interest rate swaps | **-** | **1,073** | **-** | **1,073** |
| Commodity swaps | **-** | **244** | **39** | **283** |
| Currency forward contracts | **-** | **155** | **-** | **155** |
| **Total liabilities** | **-** | **1,472** | **39** | **1,511** |
| December 31, 2019: | | | | |
| Trade and other payables: | | | | |
| Interest rate swaps | - | 338 | - | 338 |
| Commodity swaps | - | 521 | - | 521 |
| Currency forward contracts | - | 109 | - | 109 |
| Total liabilities | - | 968 | - | 968 |

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(iii) Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The changes in Level 3 investments in securities and other current assets for the nine-month period ended September 30, 2020 and the year ended December 31, 2019 are as follows:

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| **Beginning** | **6,162** | 5,530 |
| Net (disposals)/ additions | **(1,417)** | 286 |
| Acquisition of SABIC | **262** | - |
| Realized gain | **179** | 50 |
| Net movement in unrealized fair value | **(658)** | 296 |
| **Ending** | **4,528** | 6,162 |

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 (Note 11). Unrealized fair value movements on these trade receivables are not significant.

## 4. Acquisition of subsidiary - Saudi Basic Industries Corporation (“SABIC”)

On June 16, 2020, the Company acquired a 70% equity interest in SABIC from the Public Investment Fund ("PIF"), for SAR 259,125 ($69,100). This equates to SAR 123.39 ($32.90) per share.

SABIC is a global diversified chemicals company headquartered in Riyadh, Saudi Arabia. SABIC manufactures on a global scale in the Americas, Europe, Middle East and Asia Pacific, making different products, including chemicals, commodity and high-performance plastics, specialties, agri-nutrients and metals. The acquisition of the equity interest in SABIC is consistent with Saudi Aramco’s long-term Downstream strategy to grow its integrated refining and petrochemicals capacity and create value from integration across the hydrocarbon value chain.

The transaction resulted in the Company obtaining control of SABIC. The Company accounts for acquisitions of subsidiaries using the acquisition method of accounting, including those acquisitions under common control and having commercial substance. This requires recognition of the assets acquired and liabilities assumed at fair value as of the acquisition date.

Saudi Aramco has engaged an independent valuer in order to determine the fair values of the assets and liabilities of SABIC as part of the purchase price allocation. During the current quarter, the fair values of the assets and liabilities have been updated mainly for increases in investment in joint ventures and associates and non-controlling interests and a decrease in goodwill. The updated fair values in the following table remain provisional.

| | |
|---|---|
| Cash and cash equivalents | 27,515 |
| Trade receivables | 13,829 |
| Inventories | 24,919 |
| Other current assets and receivables | 4,803 |
| Short-term investments | 8,405 |
| Property, plant and equipment (Note 6) | 179,313 |
| Intangible assets (Note 7) | 37,079 |
| Investments in joint ventures and associates | 51,283 |
| Other non-current assets | 12,179 |
| Trade and other payables | (23,460) |
| Income tax and zakat payable | (4,178) |
| Current borrowings | (8,149) |
| Non-current borrowings | (37,174) |
| Post-employment benefit obligations | (16,549) |
| Other non-current liabilities | (9,067) |
| **Total identified net assets at fair value** | 260,748 |
| Non-controlling interests | (100,739) |
| Goodwill (Note 7) | 99,116 |
| **Purchase consideration in the form of promissory notes** | 259,125 |

Non-controlling interests which result from both the Company’s partial ownership of SABIC as well as SABIC’s partial ownership of a number of its subsidiaries were measured at their proportionate share of recognized net assets.

The purchase price amount is to be paid over several installments pursuant to a seller loan provided by PIF (Note 10). Loan payments, which are represented by promissory notes denominated in US Dollars, are as follows:

| | Principal loan amount | Loan charge |
|---|---|---|
| On or before August 2, 2020 | 26,250 | - |
| On or before April 7, 2021 | 18,750 | - |
| On or before April 7, 2022 | 31,875 | 1,875 |
| On or before April 7, 2023 | 39,375 | 1,875 |
| On or before April 7, 2024 | 39,375 | 2,250 |
| On or before April 7, 2025 | 39,375 | 3,000 |
| On or before April 7, 2026 | 64,125 | 5,625 |
| On or before April 7, 2027 | - | 3,750 |
| On or before April 7, 2028 | - | 3,750 |
| Total purchase price and loan charges | 259,125 | 22,125 |
| Payments during the period | (26,250) | - |
| Total outstanding installments | 232,875 | 22,125 |

The combined fair value of the principal loan amounts and loan charges on the date of acquisition amounted to SAR 259,125 ($69,100). This is subsequently measured at amortized cost using the effective interest method and is presented on a combined basis as 'Deferred consideration' within 'Borrowings' (Note 10).

Saudi Aramco has also agreed to make an accelerated payment of SAR 11,250 ($3,000) in April 2022 based on the occurrence of certain market conditions in 2021. If the accelerated payment is made, it will reduce the principal amount that would otherwise be payable on or before April 2026 by SAR 11,250 ($3,000) and the loan charge in April 2022 will be reduced from SAR 1,875 ($500) to SAR 750 ($200).

The provisional goodwill of SAR 99,116 arising from the transaction includes synergies expected from the transaction, representing value chain capture through downstream integration, procurement, supply chain, manufacturing, marketing and sales, future customer relationships and intangibles such as acquired work force. Goodwill has been provisionally allocated to the Downstream operating segment, which is expected to benefit from the synergies of the acquisition.

Acquisition and transaction costs of SAR 343 were expensed as selling, administrative and general expenses in the Condensed Consolidated Statement of Income. The post-acquisition revenue and net loss included in the Condensed Consolidated Statement of Income amounted to SAR 32,827 and SAR 4,005, respectively.

## 5. Operating segments

Saudi Aramco is engaged in prospecting, exploring, drilling, extracting, processing, manufacturing, refining and marketing hydrocarbon substances within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At September 30, 2020, 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, which now include SABIC's operations from the date of acquisition, consist primarily of refining and petrochemical manufacturing, supply and trading, distribution and power generation, logistics, and marketing of crude oil and related services to international and domestic customers. Corporate activities include primarily supporting services including Human Resources, Finance and IT not allocated to Upstream and Downstream. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

There are no differences from the 2019 consolidated financial statements in the basis of segmentation or in the basis of measurement of segment earnings before interest, income taxes and zakat, except for some limited changes in the pricing basis of certain inter-segment transactions between Upstream and Downstream.

Information by segments for the three-month period ended September 30, 2020 is as follows:

| | **Upstream** | **Downstream** | **Corporate** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| External revenue | **103,660** | **96,089** | **310** | **-** | **200,059** |
| Other income related to sales | **13,795** | **14,740** | **-** | **-** | **28,535** |
| Inter-segment revenue | **36,610** | **11,077** | **53** | **(47,740)** | **-** |
| Earnings (losses) before interest, income taxes and zakat | **103,696** | **(2,983)** | **(2,912)** | **(2,324)** | **95,477** |
| Finance income | | | | | **681** |
| Finance costs | | | | | **(3,407)** |
| Income before income taxes and zakat | | | | | **92,751** |
| Capital expenditures - cash basis | **17,288** | **6,159** | **487** | **-** | **23,934** |

Information by segments for the three-month period ended September 30, 2019 is as follows:

| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| External revenue | 171,223 | 94,502 | 313 | - | 266,038 |
| Other income related to sales | 10,985 | 27,623 | - | - | 38,608 |
| Inter-segment revenue | 54,506 | 8,440 | 49 | (62,995) | - |
| Earnings (losses) before interest, income taxes and zakat | 167,626 | 3,004 | (2,708) | (2,443) | 165,479 |
| Finance income | | | | | 1,411 |
| Finance costs | | | | | (1,623) |
| Income before income taxes and zakat | | | | | 165,267 |
| Capital expenditures - cash basis | 23,296 | 6,443 | 613 | - | 30,352 |

Information by segments for the nine-month period ended September 30, 2020 is as follows:

| | **Upstream** | **Downstream** | **Corporate** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| External revenue | **307,829** | **239,998** | **1,030** | **-** | **548,857** |
| Other income related to sales | **30,093** | **39,343** | **-** | **-** | **69,436** |
| Inter-segment revenue | **104,370** | **26,587** | **226** | **(131,183)** | **-** |
| Earnings (losses) before interest, income taxes and zakat | **299,992** | **(23,279)** | **(9,759)** | **7,951** | **274,905** |
| Finance income | | | | | **2,315** |
| Finance costs | | | | | **(6,906)** |
| Income before income taxes and zakat | | | | | **270,314** |
| Capital expenditures - cash basis | **56,898** | **17,184** | **1,024** | **-** | **75,106** |

Information by segments for the nine-month period ended September 30, 2019 is as follows:

| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| External revenue | 533,136 | 288,157 | 850 | - | 822,143 |
| Other income related to sales | 26,155 | 76,289 | - | - | 102,444 |
| Inter-segment revenue | 171,641 | 25,151 | 196 | (196,988) | - |
| Earnings (losses) before interest, income taxes and zakat | 521,734 | 4,873 | (8,711) | (5,518) | 512,378 |
| Finance income | | | | | 4,125 |
| Finance costs | | | | | (4,402) |
| Income before income taxes and zakat | | | | | 512,101 |
| Capital expenditures - cash basis | 65,226 | 18,007 | 1,382 | - | 84,615 |

## 6. Property, plant and equipment

| | Crude oil facilities | Refinery and petrochemical facilities | Gas and NGL facilities | General service plant | Construction-in-progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| January 1, 2020 | **537,299** | **231,049** | **396,400** | **108,582** | **291,482** | **1,564,812** |
| Additions | **6,228** | **2,239** | **139** | **6,260** | **73,137** | **88,003** |
| Acquisition (Note 4) | - | **150,889** | - | - | **28,424** | **179,313** |
| Construction completed | **52,888** | **18,563** | **43,921** | **24,429** | **(139,801)** | - |
| Currency translation differences | - | **1,542** | - | **(1)** | **(4)** | **1,537** |
| Transfers and adjustments | **(37)** | **(302)** | **(98)** | **(465)** | **(104)** | **(1,006)** |
| Transfer of exploration and evaluation assets | - | - | - | - | **847** | **847** |
| Retirements and sales | **(1,337)** | **(3,318)** | **(261)** | **(3,205)** | **(71)** | **(8,192)** |
| **September 30, 2020** | **595,041** | **400,662** | **440,101** | **135,600** | **253,910** | **1,825,314** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| January 1, 2020 | **(271,105)** | **(78,033)** | **(174,300)** | **(59,360)** | - | **(582,798)** |
| Additions[1] | **(17,145)** | **(15,406)** | **(12,274)** | **(6,175)** | - | **(51,000)** |
| Currency translation differences | - | **(1,247)** | - | - | - | **(1,247)** |
| Transfers and adjustments | **(639)** | **(68)** | **14** | **(20)** | - | **(713)** |
| Retirements and sales | **1,248** | **3,174** | **250** | **1,489** | - | **6,161** |
| **September 30, 2020** | **(287,641)** | **(91,580)** | **(186,310)** | **(64,066)** | - | **(629,597)** |
| **Property, plant and equipment - net, September 30, 2020** | **307,400** | **309,082** | **253,791** | **71,534** | **253,910** | **1,195,717** |

(1) Includes impairments of SAR 925.

Additions to right-of-use assets during the three-month and nine-month periods ended September 30, 2020 were SAR 2,894 and SAR 14,058, respectively. Acquisition of right-of-use assets during the three-month and nine-month periods ended September 30, 2020 were nil and SAR 7,003, respectively. The following table presents depreciation charges and net carrying amounts of right-of-use assets by class of assets.

| | Depreciation expense for the nine-month period ended September 30, 2020 | Net carrying amount at September 30, 2020 |
|---|---|---|
| Crude oil facilities | **2,701** | **11,658** |
| Refinery and petrochemical facilities | **1,717** | **16,483** |
| Gas and NGL facilities | **129** | **278** |
| General service plant | **3,255** | **26,035** |
| | **7,802** | **54,454** |

## 7. Intangible assets

| | Goodwill | Exploration and evaluation | Brands and trademarks | Franchise/ customer relationships | Computer software | Other | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2020 | **1,077** | **21,913** | **4,791** | **1,764** | **4,428** | **1,680** | **35,653** |
| Additions | - | **3,633** | - | - | **88** | **22** | **3,743** |
| Acquisition (Note 4) | **99,116** | - | **18,215** | **17,985** | **260** | **619** | **136,195** |
| Currency translation differences | **(3)** | - | **(23)** | **(5)** | **17** | **64** | **50** |
| Transfers and adjustments | - | - | **(86)** | **(12)** | **2** | **(35)** | **(131)** |
| Transfer of exploration and evaluation assets | - | **(847)** | - | - | - | - | **(847)** |
| Retirements and write offs | - | **(3,424)** | - | - | **(32)** | **(7)** | **(3,463)** |
| **September 30, 2020** | **100,190** | **21,275** | **22,897** | **19,732** | **4,763** | **2,343** | **171,200** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| January 1, 2020 | - | - | **(1,448)** | **(866)** | **(2,835)** | **(382)** | **(5,531)** |
| Charge for the period | - | - | **(300)** | **(385)** | **(254)** | **(188)** | **(1,127)** |
| Currency translation differences | - | - | - | **(3)** | **(16)** | **(49)** | **(68)** |
| Transfers and adjustments | - | - | **11** | **12** | **(1)** | **24** | **46** |
| Retirements and write offs | - | - | - | - | **32** | - | **32** |
| **September 30, 2020** | - | - | **(1,737)** | **(1,242)** | **(3,074)** | **(595)** | **(6,648)** |
| **Intangible assets - net, September 30, 2020** | **100,190** | **21,275** | **21,160** | **18,490** | **1,689** | **1,748** | **164,552** |

As a result of the acquisition of SABIC (Note 4) certain new intangible assets have been recognized. These will be amortized on a straight-line basis over their estimated useful lives, with the exception of the goodwill arising from the transaction, which is deemed to have an indefinite useful life, and the SABIC brand, which has been determined to have an indefinite useful life and are not subject to amortization.

Other intangible assets include licenses and usage rights of SAR 671, patents and intellectual property of SAR 458 and new intangible assets recognized as a result of the acquisition of SABIC consisting of technology and licenses of SAR 619.

## 8. Income taxes and zakat

### (a) Kingdom income tax rates

The Company is subject to an income tax rate of 20% on the activities of exploration and production of non-associated natural gas, including gas condensates, as well as the collection, treatment, processing, fractionation and transportation of associated and non-associated natural gas and their liquids, gas condensates and other associated elements, and an income tax rate of 50% on all other activities, in accordance with the Tax Law.

Effective January 1, 2020, the tax rate applicable to the Company's Downstream activities was reduced from the 50% rate applicable to qualified domestic oil and hydrocarbon production companies to the general corporate tax rate of 20% applicable to similar domestic downstream companies under the Tax Law. The new rate is conditioned on the Company separating its Downstream activities under the control of one or more separate wholly owned subsidiaries before December 31, 2024, otherwise the Company's Downstream activities will be retroactively taxed at 50%. The Company expects to transfer all of its Downstream activities into a separate legal entity or entities within the period specified (Note 2(a)(iii)).

The Tax Law was amended during the previous quarter, effective January 1, 2020, whereby shares held directly or indirectly in listed companies on the Tadawul by taxpayers engaged in oil and hydrocarbon activities are exempt from the application of the corporate income tax. As a result, the Company's ownership interests in SABIC, Rabigh Refining and Petrochemical Company ("Petro Rabigh"), National Shipping Company of Saudi Arabia ("Bahri") and Saudi Electricity Company ("SEC") are now subject to zakat. Zakat is levied based on 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, whichever is higher. Zakat is computed by using the zakat base and the zakat provision is charged to the Condensed Consolidated Statement of Income.

Income tax and zakat expense is primarily based on income arising in Saudi Arabia.

The reconciliation of tax charge at the Kingdom statutory rates to consolidated tax and zakat expense is as follows:

| | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
|---|---|---|---|---|
| Income before income taxes and zakat | **92,751** | 165,267 | **270,314** | 512,101 |
| (Less)/add: (Income)/loss subject to zakat | **2,629** | - | **2,768** | - |
| Income subject to income tax | **95,380** | 165,267 | **273,082** | 512,101 |
| Income taxes at the Kingdom's statutory tax rates | **45,465** | 81,857 | **132,566** | 251,010 |
| Tax effect of: | | | | |
| Impact of change in income tax rates on deferred tax | **-** | 2,655 | **-** | 2,655 |
| Income not subject to tax at statutory rates and other | **2,583** | 916 | **5,861** | 2,726 |
| Income tax expense | **48,048** | 85,428 | **138,427** | 256,391 |
| Zakat expense | **494** | - | **579** | - |
| Total income tax and zakat expense | **48,542** | 85,428 | **139,006** | 256,391 |

### (b) Income tax and zakat expense

| | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
|---|---|---|---|---|
| Current income tax - Kingdom | **43,346** | 78,380 | **128,281** | 242,777 |
| Current income tax - Foreign | **203** | 25 | **255** | 201 |
| Deferred income tax - Kingdom: | | | | |
| Impact of change in income tax rates | **-** | 2,655 | **-** | 2,655 |
| Charge for the period | **4,787** | 4,350 | **12,473** | 10,011 |
| Deferred income tax - Foreign | **(288)** | 18 | **(2,582)** | 747 |
| Zakat - Kingdom | **494** | - | **579** | - |
| | **48,542** | 85,428 | **139,006** | 256,391 |

### (c) Income tax and zakat obligations to the Government

| | **2020** | 2019 |
|---|---|---|
| **January 1** | **62,243** | 70,299 |
| Acquisition | **3,288** | - |
| Provided during the period | **128,860** | 242,777 |
| Payments during the period by the Company (Note 15) | **(64,398)** | (121,526) |
| Payments during the period by subsidiaries and joint operations | **(2,755)** | (888) |
| Settlements of due from the Government | **(84,415)** | (125,318) |
| Other settlements | **(4,238)** | (3,405) |
| **September 30** | **38,585** | 61,939 |

## 9. Other reserves

| | | | | | | Share of other comprehensive income (loss) of joint ventures and associates | | |
|---|---|---|---|---|---|---|---|---|
| | **Currency translation differences** | **Investments in securities at FVOCI** | **Post-employment benefit obligations** | **Share-based payment reserve** | **Cash flow hedges and other** | **Post-employment benefit obligations and other** | **Foreign currency translation gains (losses)** | **Total** |
| **January 1, 2020** | **(585)** | **3,342** | **-** | **31** | **(427)** | **(476)** | **191** | **2,076** |
| Current period change | **165** | **(1,455)** | **-** | **434** | **(696)** | **(654)** | **55** | **(2,151)** |
| Remeasurement loss (1) | **-** | **-** | **(11,854)** | **-** | **-** | **-** | **-** | **(11,854)** |
| Transfer to retained earnings | **-** | **-** | **6,577** | **-** | **-** | **-** | **-** | **6,577** |
| Tax effect | **-** | **433** | **4,942** | **-** | **-** | **-** | **-** | **5,375** |
| Less: amounts related to non-controlling interests | **32** | **-** | **335** | **-** | **1** | **-** | **-** | **368** |
| **September 30, 2020** | **(388)** | **2,320** | **-** | **465** | **(1,122)** | **(1,130)** | **246** | **391** |

(1) The remeasurement loss is primarily due to changes in discount rates used to determine the present value of the obligations.

## 10. Borrowings

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **Non-current:** | | |
| Deferred consideration (Note 4) | **215,981** | - |
| Borrowings | **61,038** | 39,957 |
| Debentures | **74,207** | 60,957 |
| Sukuk (Shari'a compliant) | **12,738** | 12,649 |
| Lease liabilities | **44,281** | 33,831 |
| Other (1) | **3,307** | 3,296 |
| | **411,552** | 150,690 |
| **Current:** | | |
| Deferred consideration (Note 4) | **18,529** | - |
| Short-term bank financing | **52,052** | 12,660 |
| Borrowings | **16,049** | 4,957 |
| Sukuk (Shari'a compliant) | **199** | 175 |
| Lease liabilities | **9,941** | 7,103 |
| | **96,770** | 24,895 |

(1) Other borrowings comprise loans from non-financial institutions under commercial terms.

On June 9, 2020, the Company amended and restated certain agreements with respect to its SAR 22,500 ($6,000) five-year conventional revolving credit facility to incorporate a SAR 7,500 ($2,000) swing line sublimit-facility in support of the Company's establishment of a U.S. commercial paper program. The swing line makes part of the revolving credit facility and has not been utilized as of September 30, 2020.

On May 7, 2020, the Company entered into a SAR 37,500 ($10,000) one-year term loan facility with various financial institutions for general corporate purposes. The one-year term loan facility currently terminates on May 6, 2021 but the Company has the option to extend the facility date by up to 364 days from May 6, 2021. On July 27, 2020, the facility was fully utilized with the outstanding loan balance of SAR 37,500 ($10,000).

## 11. Revenue

| | 3rd quarter 2020 | 3rd quarter 2019 | Nine months 2020 | Nine months 2019 |
|---|---|---|---|---|
| Revenue from contracts with customers | **199,165** | 264,383 | **555,743** | 815,705 |
| Movement between provisional and final prices | **(35)** | 616 | **(9,625)** | 3,973 |
| Other revenue | **929** | 1,039 | **2,739** | 2,465 |
| | **200,059** | 266,038 | **548,857** | 822,143 |

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 10 to 120 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 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:

| | 3rd quarter 2020 | | | |
|---|---|---|---|---|
| | **Upstream** | **Downstream** | **Corporate** | **Total** |
| Crude oil | **94,755** | **4,647** | **-** | **99,402** |
| Refined and chemical products | **-** | **88,065** | **-** | **88,065** |
| Natural gas and NGLs | **8,827** | **473** | **-** | **9,300** |
| Other (1) | **-** | **2,398** | **-** | **2,398** |
| **Revenue from contracts with customers** | **103,582** | **95,583** | **-** | **199,165** |
| Movement between provisional and final prices | **10** | **(45)** | **-** | **(35)** |
| Other revenue | **68** | **551** | **310** | **929** |
| **External revenue** | **103,660** | **96,089** | **310** | **200,059** |

| | 3rd quarter 2019 | | | |
|---|---|---|---|---|
| | Upstream | Downstream | Corporate | Total |
| Crude oil | 156,849 | 6,293 | - | 163,142 |
| Refined and chemical products | - | 87,270 | - | 87,270 |
| Natural gas and NGLs | 13,572 | 399 | - | 13,971 |
| **Revenue from contracts with customers** | 170,421 | 93,962 | - | 264,383 |
| | | | | |
| Movement between provisional and final prices | 547 | 69 | - | 616 |
| Other revenue | 255 | 471 | 313 | 1,039 |
| **External revenue** | 171,223 | 94,502 | 313 | 266,038 |

| | **Nine months 2020** | | | |
|---|---|---|---|---|
| | **Upstream** | **Downstream** | **Corporate** | **Total** |
| Crude oil | **285,175** | **17,540** | **-** | **302,715** |
| Refined and chemical products | **-** | **216,609** | **-** | **216,609** |
| Natural gas and NGLs | **31,739** | **1,492** | **-** | **33,231** |
| Other (1) | **-** | **3,188** | **-** | **3,188** |
| **Revenue from contracts with customers** | **316,914** | **238,829** | **-** | **555,743** |
| | | | | |
| Movement between provisional and final prices | **(9,398)** | **(227)** | **-** | **(9,625)** |
| Other revenue | **313** | **1,396** | **1,030** | **2,739** |
| **External revenue** | **307,829** | **239,998** | **1,030** | **548,857** |

| | Nine months 2019 | | | |
|---|---|---|---|---|
| | Upstream | Downstream | Corporate | Total |
| Crude oil | 484,819 | 15,362 | - | 500,181 |
| Refined and chemical products | - | 269,902 | - | 269,902 |
| Natural gas and NGLs | 44,120 | 1,502 | - | 45,622 |
| **Revenue from contracts with customers** | 528,939 | 286,766 | - | 815,705 |
| | | | | |
| Movement between provisional and final prices | 3,723 | 250 | - | 3,973 |
| Other revenue | 474 | 1,141 | 850 | 2,465 |
| **External revenue** | 533,136 | 288,157 | 850 | 822,143 |

(1) Other revenue relates to the manufacture and sale of metal products following the acquisition of Saudi Iron & Steel Company (“Hadeed”), a wholly owned subsidiary of SABIC.

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

| | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
|---|---|---|---|---|
| Crude oil | **1,067** | 912 | **2,216** | 2,049 |
| Refined and chemical products | **12,214** | 14,941 | **32,852** | 41,910 |
| Natural gas and NGLs | **2,394** | 4,533 | **10,057** | 11,955 |
| | **15,675** | 20,386 | **45,125** | 55,914 |

## 12. Non-cash investing and financing activities

Investing and financing activities for the three-month and nine-month periods ended September 30, 2020 include the acquisition of SABIC for deferred consideration of nil and SAR 259,125 (Note 4), respectively, additions to right-of-use assets of SAR 2,894 and SAR 14,058 (September 30, 2019: SAR 2,291 and SAR 6,248), respectively, subordinated shareholder loans and trade receivables with a joint venture that were converted to equity of nil and nil (September 30, 2019: SAR 975 and SAR 2,804), respectively, and asset retirement provisions of SAR 102 and SAR 258 (September 30, 2019: SAR 104 and SAR 280), respectively.

## 13. Commitments

### (a) Capital commitments

Capital expenditures contracted for but not yet incurred were SAR 158,236 and SAR 154,181 at September 30, 2020 and December 31, 2019, respectively. In addition, leases contracted for but not yet commenced were SAR 10,823 and SAR 7,467 at September 30, 2020 and December 31, 2019, respectively.

### (b) Sadara Chemical Company ("Sadara")

In March 2020, Saudi Aramco and Dow Chemical Company equally committed to comply with the Ministry of Energy feedstock agreement to support the development of Chemical Value Parks in the Kingdom with an amount of SAR 375. The first payment of SAR 38 shall be deposited within one month from the date of supplying Sadara with additional ethane. The remaining funds shall be deposited over 9 years at SAR 38 annually. Saudi Aramco's commitment of SAR 188 is outstanding at September 30, 2020.

## 14. Contingencies

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

Saudi Aramco also has bank guarantees with respect to the acquisition of a subsidiary (Note 4) amounting to SAR 4,278 as of September 30, 2020 arising in the ordinary course of business.

### Rabigh Refining and Petrochemical Company ("Petro Rabigh")

On September 30, 2020, project completion under the senior debt financing (the "Rabigh II Financing") for the Rabigh II Project ("the Project") was successfully achieved. As a result, the completion guarantees provided by the two founding shareholders, the Company and Sumitomo Chemical Co. Ltd., for their equal share of the Rabigh II Financing of SAR 17,093 were released. Concurrently, a Debt Service Undertaking ("DSU") was provided by the two founding shareholders that covers shortfalls in scheduled (not accelerated) debt service under the Rabigh II Financing until at least 50% of the shareholder guaranteed SAR 11,250 equity bridge loans (the "EBLs") are repaid using share capital or shareholder-funded subordinated loans. The EBLs were due to be repaid on October 1, 2020, but, were extended until October 1, 2022. The DSU has not been utilized through the date of the condensed consolidated interim financial report.

In addition, the two founding shareholders provided Petro Rabigh with shareholder funded revolving facilities (the "Shareholder Facilities") of up to SAR 7,500 with the Company's share being SAR 4,688. Petro Rabigh has utilized SAR 2,813 (the Company's share) on October 8, 2020. The Shareholder Facilities are scheduled to mature in September 2023, but provide for further tenor extensions which are subject to certain conditions being met at that time.

## 15. Payments to the Government by the Company

| | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
|---|---|---|---|---|
| Income taxes (Note 8(c)) | **4,948** | 39,787 | **64,398** | 121,526 |
| Royalties | **18,371** | 41,842 | **64,238** | 130,136 |
| Dividends | **69,084** | 50,212 | **188,162** | 224,175 |

## 16. Related party transactions and balances

### (a) Transactions

| | **3rd quarter 2020** | 3rd quarter 2019 | **Nine months 2020** | Nine months 2019 |
|---|---|---|---|---|
| **Joint ventures:** | | | | |
| Revenue from sales | **5,520** | 750 | **8,280** | 1,909 |
| Other revenue | **15** | 4 | **38** | 15 |
| Interest income | **-** | 15 | **38** | 15 |
| Purchases | **3,694** | - | **3,739** | - |
| Service expenses | **3** | 4 | **11** | 15 |
| **Associates:** | | | | |
| Revenue from sales | **13,856** | 8,873 | **23,501** | 27,259 |
| Other revenue | **45** | 83 | **203** | 139 |
| Interest income | **15** | 19 | **101** | 90 |
| Purchases | **6,165** | 7,437 | **12,904** | 23,648 |
| Service expenses | **38** | 60 | **154** | 116 |
| **Government and semi-Government agencies:** | | | | |
| Revenue from sales | **4,721** | 12,593 | **21,810** | 36,008 |
| Other income related to sales | **28,535** | 38,608 | **69,436** | 102,444 |
| Other revenue | **79** | 386 | **345** | 739 |
| Purchases | **4,298** | 844 | **8,944** | 2,363 |
| Service expenses | **78** | 116 | **266** | 304 |

### (b) Balances

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| **Joint ventures:** | | |
| Other assets and receivables | **5,209** | 1,609 |
| Trade receivables | **6,304** | 836 |
| Interest receivable | **94** | 30 |
| Trade and other payables | **2,948** | 15 |
| **Associates:** | | |
| Other assets and receivables | **3,368** | 3,326 |
| Trade receivables | **13,920** | 8,715 |
| Trade and other payables | **3,341** | 4,553 |
| **Government and semi-Government agencies:** | | |
| Trade receivables | **3,229** | 5,985 |
| Due from the Government | **32,152** | 36,781 |
| Trade and other payables | **3,131** | 3,019 |
| Borrowings | **242,707** | 5,366 |

### (c) Compensation of key management personnel

Compensation policies for and composition of key management personnel remain consistent with 2019.

## 17. Investment in Hyundai Oilbank

On December 17, 2019, Aramco Overseas Company B.V. ("AOC"), a wholly owned subsidiary of the Company, acquired a 17% equity interest in Hyundai Oilbank, a subsidiary of Hyundai Heavy Industries Holdings, for SAR 4,414 with an option to acquire an additional 2.9% which can be exercised at any time before the earlier of five years or Hyundai Oilbank's IPO. Hyundai Oilbank is a private oil refining company in South Korea established in 1964. The business portfolio of Hyundai Oilbank and its subsidiaries includes oil refining, base oil, petrochemicals, and a network of gas stations. The investment in Hyundai Oilbank supports Saudi Aramco's Downstream growth strategy of expanding its global footprint in key markets in profitable integrated refining, chemicals and marketing businesses which enable Saudi Aramco to place crude oil and leverage its trading capabilities.

The carrying value of Hyundai Oilbank is recorded as an investment in associate. Saudi Aramco engaged an independent valuer in order to determine the fair values of the assets and liabilities of Hyundai Oilbank. Based on the valuer's purchase price allocation report, the fair values of the identifiable assets and liabilities of Hyundai Oilbank as at the date of acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | 1,541 |
| Trade and other receivables | 5,096 |
| Inventories | 8,074 |
| Other assets | 634 |
| Investments in affiliates | 6,769 |
| Property, plant and equipment | 26,100 |
| Intangible assets | 3,566 |
| Trade and other payables | (9,491) |
| Borrowings | (12,604) |
| Other liabilities | (4,432) |
| Total identifiable net assets at fair value | 25,253 |
| Hybrid securities | (720) |
| Non-controlling interest | (3,045) |
| Total identifiable net assets attributable to equity owners | 21,488 |
| Saudi Aramco's 17% share | 3,653 |
| Call option | 143 |
| Goodwill | 618 |
| Purchase consideration | 4,414 |

## 18. Dividends

Dividends declared and paid on ordinary shares are as follows:

| | | | SAR per share | |
|---|---|---|---|---|
| | **Nine months 2020** | Nine months 2019 | **Nine months 2020** | Nine months 2019 |
| Quarter: | | | | |
| March | **50,226** | 86,250 | **0.25** | 0.43 |
| June | **70,319** | 87,713 | **0.35** | 0.44 |
| September | **70,320** | 50,212 | **0.35** | 0.25 |
| Total dividends paid (1) | **190,865** | 224,175 | **0.95** | 1.12 |
| Declared in December 2019, paid in January 2020 | **(35,475)** | - | **(0.17)** | - |
| Total dividends declared | **155,390** | 224,175 | **0.78** | 1.12 |
| Dividends declared in November 2020 and 2019 (2) | **70,324** | 50,213 | **0.35** | 0.25 |

(1) Dividends of SAR 50,226 paid in 2020 relate to 2019 results.

(2) The condensed consolidated interim financial report does not reflect a dividend to shareholders of approximately SAR 70,324, which was approved in November 2020 (November 2019: SAR 50,213). This dividend will be deducted from unappropriated retained earnings in the year ending December 31, 2020 and relates to results for the three-month period ended September 30, 2020.

# Non-IFRS measures reconciliations and definitions

This Interim Report includes certain non-IFRS financial measures – ROACE, free cash flow, gearing and EBIT – which Aramco uses in the analysis of its business and financial position.

These non-IFRS financial measures have been included in this Interim Report to facilitate a better understanding of Aramco's historical trends of operation and financial position.

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

## ROACE

ROACE measures the efficiency of Aramco's utilization of capital. Aramco defines ROACE as net income before finance costs, net of income taxes and zakat, for a period as a percentage of average capital employed during that period. Average capital employed is the average of total borrowings plus total equity at the beginning and end of the applicable period. Aramco utilizes ROACE to evaluate management's performance and demonstrate to its shareholders that capital has been used effectively.

ROACE for the third quarter and nine months ended September 30, 2020, calculated on a twelve-month rolling basis, was 14.8% compared to 31.5% for the same periods in 2019. This decrease was primarily attributable to lower net income, and to a lesser extent, higher borrowings as a result of the SABIC acquisition.

| | SAR | | USD* | |
|---|---|---|---|---|
| | Twelve months ended September 30 | | Twelve months ended September 30 | |
| All amounts in millions unless otherwise stated | **2020** | 2019 | **2020** | 2019 |
| Net income | **206,291** | 359,771 | **55,010** | 95,939 |
| Finance costs, net of income taxes and zakat | **4,265** | 2,608 | **1,137** | 696 |
| **Net income before finance costs, net of income taxes and zakat** | **210,556** | 362,379 | **56,147** | 96,635 |
| **As at period start:** | | | | |
| Non-current borrowings | **133,288** | 73,302 | **35,543** | 19,547 |
| Current borrowings | **40,006** | 28,883 | **10,668** | 7,702 |
| Total equity | **1,049,446** | 973,892 | **279,852** | 259,705 |
| **Capital employed** | **1,222,740** | 1,076,077 | **326,063** | 286,954 |
| **As at period end:** | | | | |
| Non-current borrowings | **411,552** | 133,288 | **109,747** | 35,543 |
| Current borrowings | **96,770** | 40,006 | **25,805** | 10,668 |
| Total equity | **1,113,737** | 1,049,446 | **296,997** | 279,852 |
| **Capital employed** | **1,622,059** | 1,222,740 | **432,549** | 326,063 |
| **Average capital employed** | **1,422,400** | 1,149,409 | **379,306** | 306,509 |
| **ROACE** | **14.8%** | 31.5% | **14.8%** | 31.5% |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## Free cash flow

Aramco uses free cash flow to evaluate its cash available for financing activities, including dividend payments. Aramco defines free cash flow as net cash provided by operating activities less capital expenditures.

Free cash flow for the third quarter of 2020 was SAR 46,547 ($12,411), compared to SAR 77,290 ($20,611) for the same quarter in 2019, a decrease of SAR 30,743 ($8,200). This decrease was principally due to lower operating cash flow, reflecting a decline in earnings and unfavourable movements in working capital, partially offset by a reduction in settlement of taxes and zakat. Capital expenditures decreased by SAR 6,418 ($1,711) in the third quarter of 2020, compared to the same quarter in 2019, as a result of the on-going capital spending optimization and efficiency programs.

Free cash flow for the first nine months of 2020 was SAR 125,752 ($33,533), compared to SAR 219,716 ($58,591) for the same period in 2019. This decrease of SAR 93,964 ($25,058) mainly reflects lower earnings resulting from lower crude oil prices and volumes sold and weaker refining and chemicals margins. This was partially offset by a decrease in settlement of taxes and zakat and cash released from working capital changes. Capital expenditures for the first nine months of 2020 declined in comparison to the same period in 2019, due to the implementation of capital spending optimization and efficiency programs in response to the current economic environment.

| | Third quarter | | | | Nine months | | | |
|---|---|---|---|---|---|---|---|---|
| | SAR | | USD* | | SAR | | USD* | |
| All amounts in millions unless otherwise stated | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Net cash provided by operating activities | **70,481** | 107,642 | **18,794** | 28,705 | **200,858** | 304,331 | **53,561** | 81,155 |
| Capital expenditures | **(23,934)** | (30,352) | **(6,383)** | (8,094) | **(75,106)** | (84,615) | **(20,028)** | (22,564) |
| **Free cash flow** | **46,547** | 77,290 | **12,411** | 20,611 | **125,752** | 219,716 | **33,533** | 58,591 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## Gearing

Gearing is a measure of the degree to which Aramco's operations are financed by debt. Aramco defines gearing as the ratio of total borrowings less cash and cash equivalents to total borrowings less cash and cash equivalents 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.

Gearing increased from –0.2% (net cash position) as at December 31, 2019 to 21.8% as at September 30, 2020. This principally reflects an increase in debt in connection with the deferred consideration on acquisition of SABIC, the full drawdown of a $10 billion term loan facility and the consolidation of SABIC's net debt onto Aramco's balance sheet.

| | SAR | | USD* | |
|---|---|---|---|---|
| All amounts in millions unless otherwise stated | **September 30, 2020** | **December 31, 2019** | **September 30, 2020** | **December 31, 2019** |
| Total borrowings (current and non-current) | **508,322** | 175,585 | **135,552** | 46,823 |
| Cash and cash equivalents | **(197,649)** | (177,706) | **(52,706)** | (47,388) |
| **Net debt / (cash)** | **310,673** | (2,121) | **82,846** | (565) |
| Total equity | **1,113,737** | 1,046,235 | **296,997** | 278,996 |
| **Total equity and net debt / (cash)** | **1,424,410** | 1,044,114 | **379,843** | 278,431 |
| **Gearing** | **21.8%** | (0.2)% | **21.8%** | (0.2)% |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

## Earnings before interest, income taxes and zakat (EBIT)

Aramco believes EBIT provides useful information regarding its financial performance to analysts and investors. Aramco defines EBIT as net income plus finance costs and income taxes and zakat, less finance income.

EBIT for the third quarter ended September 30, 2020, was SAR 95,477 ($25,461) compared to SAR 165,479 ($44,129) during the same quarter in 2019, representing a decrease of SAR 70,002 ($18,668). This primarily reflects the impact of lower crude oil prices and volumes sold, and weaker refining and chemicals margins.

EBIT for the nine months ended September 30, 2020, was SAR 274,905 ($73,308) compared to SAR 512,378 ($136,635) during the same period in 2019. This decrease of SAR 237,473 ($63,327) was mainly due to the impact of lower crude oil prices and volumes sold, and reduced refining and chemicals margins.

| | Third quarter | | | | Nine months | | | |
|---|---|---|---|---|---|---|---|---|
| | SAR | | USD* | | SAR | | USD* | |
| All amounts in millions unless otherwise stated | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Net income | **44,209** | 79,839 | **11,789** | 21,291 | **131,308** | 255,710 | **35,015** | 68,190 |
| Finance income | **(681)** | (1,411) | **(181)** | (376) | **(2,315)** | (4,125) | **(617)** | (1,100) |
| Finance costs | **3,407** | 1,623 | **909** | 433 | **6,906** | 4,402 | **1,842** | 1,174 |
| Income taxes and zakat | **48,542** | 85,428 | **12,944** | 22,781 | **139,006** | 256,391 | **37,068** | 68,371 |
| **Earnings before interest, income taxes and zakat** | **95,477** | 165,479 | **25,461** | 44,129 | **274,905** | 512,378 | **73,308** | 136,635 |

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

# Terms and abbreviations

## Currencies

**SAR/Riyal**
Saudi Arabian riyal

**$/USD/US$/Dollar**
U.S. dollar

## Units of measurement

**Barrel (bbl)**
Barrels of crude oil, condensate or refined products

**boe**
Barrels of oil equivalent

**bpd**
Barrels per day

**bscf**
Billion standard cubic feet

**bscfd**
Billion standard cubic feet per day

**mboed**
Thousand barrels of oil equivalent per day

**mbpd**
Thousand barrels per day

**mmbbl**
Million barrels

**mmboe**
Million barrels of oil equivalent

**mmboed**
Million barrels of oil equivalent per day

**mmbpd**
Million barrels per day

**mmscf**
Million standard cubic feet

**mmscfd**
Million standard cubic feet per day

**per day**
Volumes are converted into a daily basis using a calendar year (Gregorian)

**scf**
Standard cubic feet

## Miscellaneous abbreviations

**$CO_2$**
Carbon dioxide

**COVID-19**
The coronavirus disease 2019

**IAS**
International Accounting Standard

**IASB**
International Accounting Standards Board

**IFRS**
International Financial Reporting Standards

**SOCPA**
Saudi Organization for Certified Public Accountants

## Technical terms

**Condensate**
Light hydrocarbon substances produced with raw gas which condenses into liquid at normal temperatures and pressures associated with surface production equipment.

**Gross refining capacity**
The total combined refining capacity of Aramco and the joint ventures and other entities in which it owns an equity interest.

**Hydrocarbons**
Crude oil and other hydrogen and carbon compounds in liquid or gaseous state.

**LPG**(**s**)
Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as household fuel.

**MSC**
Maximum Sustainable Capacity - 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.

**Natural gas**
Dry gas produced at Aramco gas plants and sold within the Kingdom.

**NGLs**
Natural gas liquids, which are liquid or liquefied hydrocarbons produced in the manufacture, purification and stabilization of natural gas. For purposes of reserves, ethane is included in NGLs. For purposes of production, ethane is reported separately and excluded from NGLs.

**Reliability**
Total products volume shipped/delivered within 24 hours of the scheduled time, divided by the total products volume committed. Any delays caused by factors that are under our control (e.g., terminal, pipeline, stabilization, or production) negatively affect the score, whereas delays caused by conditions that are beyond our control, such as adverse weather, are not considered. A score of less than 100 percent indicates there were issues that negatively impacted reliability.

# Glossary

**Bylaws**
The Bylaws of the Company, approved by Council of Ministers Resolution No. 180 dated 1/4/1439H (corresponding to December 19, 2017), which came into effect on January 1, 2018.

**Company**
Saudi Arabian Oil Company.

**Council of Ministers**
The cabinet of the Kingdom, which is led by the Custodian of the Two Holy Mosques, the King, and includes HRH the Crown Prince and other cabinet ministers.

**Domestic**
Refers to the Kingdom of Saudi Arabia.

**Domestic Prices**
Certain prices for the domestic sale of gas hydrocarbons including those for Regulated Gas Products.

**Exchange or Tadawul**
The Saudi Stock Exchange, the sole entity authorized in the Kingdom to act as a securities exchange.

**Government**
The Government of the Kingdom (and "Governmental" shall be interpreted accordingly). In the context of acting as a Shareholder of Aramco, the Government is the State.

**Kingdom**
Kingdom of Saudi Arabia.

**Price Equalization**
Prices are established separately by the Ministry of Energy for each relevant product using a combination of either internationally recognized indices or, where relevant, Aramco's official selling price and, depending on the relevant product, on the basis of export parity, import parity or a combination of both.

**Regulated Gas Products**
Gas hydrocarbons which are subject to the Kingdom's gas pricing regime, including natural gas, ethane and NGLs (propane, butane and natural gasoline).

**SABIC**
Saudi Basic Industries Corporation.

**Saudi Aramco / Aramco**
Saudi Arabian Oil Company, together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.

Any reference to "us", "we" or "our" refers to Saudi Aramco / Aramco except where otherwise stated.

Unless otherwise stated, the text does not distinguish between the activities and operations of the Company and those of its subsidiaries.

**Shareholder**
Any holder of shares.

**Tax Law**
Income Tax Law issued under Royal Decree No. M/1 dated 15/1/1425H (corresponding to March 6, 2004) and its Implementing Regulations issued under Ministerial Resolution No. 1535 dated 11/6/1425H (corresponding to August 11, 2004), as amended from time to time.

# Disclaimer

This Interim Report contains, and management may make, certain forward-looking statements. All statements other than statements of historical fact included in the Interim Report are forward-looking statements. Forward-looking statements give Saudi Aramco's current expectations and projections relating to our capital expenditures and investments, major projects, upstream performance, including relative to peers, and growth in downstream and chemicals. These statements may include, without limitation, any statements preceded by, followed by or including words such as "target," "believe," "expect," "aim," "intend," "may," "anticipate," "estimate," "plan," "project," "will," "can have," "likely," "should," "would," "could" and other words and terms of similar meaning or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond Saudi Aramco's control that could cause Saudi Aramco's actual results, performance or achievements to be materially different from the expected results, performance, or achievements expressed or implied by such forward-looking statements, including the following factors:

- international crude oil supply and demand;
- the impact of COVID-19 on business and economic conditions and on supply and demand for crude oil, gas and refined and petrochemical products;
- adverse economic or political developments that could impact Saudi Aramco's results of operations;
- competitive pressures faced by Saudi Aramco;
- managing Saudi Aramco's subsidiaries, joint operations, joint ventures, associates and entities in which it holds a minority interest;
- any significant deviation or changes in existing economic and operating conditions that could affect the estimated quantity and value of Saudi Aramco's proved reserves;
- operational risks and hazards in the oil and gas, refining and petrochemicals industries;
- the cyclical nature of the oil and gas, refining and petrochemicals industries;
- weather conditions;
- political and social instability and unrest and actual or potential armed conflicts in the regions in which Saudi Aramco operates and other areas;
- losses from risks related to insufficient insurance;
- Saudi Aramco's ability to deliver on current and future projects;
- litigation that Saudi Aramco is or may be subject to;
- Saudi Aramco's ability to realize benefits from recent and future acquisitions, including with respect to SABIC;
- risks related to international operations, including sanctions and trade restrictions, anti-bribery and anti-corruption laws and other laws and regulations;
- risks related to oil, gas, environmental, health and safety and other regulations that impact the industries in which Saudi Aramco operates;
- Saudi Aramco's dependence on its senior management and key personnel;
- management's limited experience in managing a public company;
- the reliability and security of Saudi Aramco's IT systems;
- climate change concerns and impacts;
- risks related to Government-directed projects and other Government requirements, including those related to Government-set maximum level of crude oil production and target MSC;
- fluctuations in interest rates and foreign exchange rates; and
- other risks and uncertainties that could cause actual results to differ from the forward-looking statements, as set forth in Saudi Aramco's Annual Report 2019 and other reports or statements available on our website at www.aramco.com/en/investors/investors/reports-and-presentations and/or filed with the Tadawul, in addition to the risk factors set forth below.

Such forward-looking statements are based on numerous assumptions regarding Saudi Aramco's present and future business strategies and the environment in which it will operate in the future. The information included in this Interim Report, including but not limited to forward-looking statements, applies only as of the date of this document and is not intended to give any assurances as to future results. Saudi Aramco expressly disclaims any obligation or undertaking to disseminate any updates or revisions to such information, including any financial data or forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law or regulation.

*Disclaimer – Risk Factors*

For a discussion of our risk factors, please see Saudi Aramco Annual Report 2019, available through the investor relations section of Saudi Aramco's website at www.aramco.com/en/investors/investors/reports-and-presentations.

In addition, please note the following additional risk factor:

- COVID-19 and its impact on business and economic conditions has negatively affected, and could continue to negatively affect Saudi Aramco's business, results of operations, financial condition and the trading price of Saudi Aramco's securities.

Public health authorities and governments at local, national and international levels have announced various measures to respond to the COVID-19 pandemic, including voluntary and mandatory quarantines, restrictions on travel and commerce, and limiting gatherings of people. Saudi Aramco has implemented business continuity and emergency response plans to continue its operations and has taken health and safety measures such as implementing worker distancing measures and using a remote workforce where possible.

However, there is no assurance that these measures will be effective or that COVID-19, or efforts to contain the virus, will not materially affect Saudi Aramco's business, results of operations and financial condition.

The COVID-19 pandemic has had, and could have additional, adverse effects on Saudi Aramco's business including:

- a decrease in economic activity and demand for Saudi Aramco's products and contributing (in addition to other supply and demand factors such as geopolitical events) to the lower oil price environment;
- operational difficulties faced by suppliers, including exporting Saudi Aramco's crude oil and refined products and lack of available space for these products at storage facilities; and
- impacts to our financial results, such as contributing to the decreases in our net income, EBIT, free cash flow and other financial metrics in the first nine months of 2020 when compared with the same period in 2019, which resulted from the lower oil price environment and other factors described in this report.

The situation surrounding COVID-19 and its impact on global economic conditions, which have impacted Saudi Aramco's business, results of operations, and financial condition during 2020, may continue to impact Saudi Aramco's business, results of operations and financial condition for the remainder of 2020 and into 2021; however, the situation remains fluid and therefore it is difficult to predict with certainty the length of time that COVID-19 will impact our business and overall potential impact of COVID-19 on Saudi Aramco's business, operations, financial condition and trading price of Saudi Aramco's securities.

Saudi Aramco's financial information herein has been extracted from Saudi Aramco's condensed consolidated interim financial report for the three and nine month periods ended September 30, 2020, which is prepared and presented in accordance with IAS 34, that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

In addition, this document includes certain "non-IFRS financial measures." These measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of Saudi Aramco's results of operations, cash flow and financial position from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of Saudi Aramco's financial information reported under IFRS.

A reconciliation of non-IFRS measures is included in *Non-IFRS measures reconciliations and definitions* section of this Interim Report.

## About Aramco

Aramco, headquartered in the city of Dhahran, is one of the world's largest integrated energy and chemicals companies; its Upstream operations are based in the Kingdom of Saudi Arabia and it also operates a global Downstream business.

**www.aramco.com/investors**

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international.media@aramco.com

Domestic media**:**
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**SAUDI BASIC INDUSTRIES CORPORATION**
**(SABIC) AND ITS SUBSIDIARIES**
(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 AND INDEPENDENT AUDITOR'S REPORT**

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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 (collectively with SABIC referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 ("KSA") and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (collectively "IFRSs as endorsed in KSA").

#### 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.

**Independent Auditor's Report**
To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

**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 2019, the Group's consolidated statement of financial position includes property, plant and equipment amounting to SR 163 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.<br><br>Based on the assessment, the management has recognised impairment loss relating to property, plant and equipment of SR 3.3 billion for the year ended 31 December 2019.<br><br>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.<br><br>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:<br><br>• 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;<br><br>• Validating the mathematical accuracy of cash flow models and agreeing relevant data to the latest production plans and approved budgets; and<br><br>• Assessing the adequacy of the Group's disclosures in respect of asset carrying values and impairment losses. |

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**Independent Auditor's Report**
To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

| Key audit matter (continued) | |
|---|---|
| **b. *Impairment assessment of Goodwill*** | ***How our audit addressed the key audit matter*** |
| As of 31 December 2019, the Group's goodwill balance was SR 8.6 billion. Based on the annual goodwill impairment assessment, including sensitivity tests, the management concluded that no material impairment of goodwill was required.<br><br>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.<br><br>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 9 for intangible assets related disclosures. | We performed the following procedures in respect of the impairment assessment of goodwill:<br><br>• Evaluated the methodology used by management to estimate the recoverable amount of each CGU;<br><br>• Evaluated the assumptions and methodologies used in the annual impairment test prepared by the management;<br><br>• 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;<br><br>• 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;<br><br>• Performed an assessment of the mathematical accuracy of the calculations and a reconciliation to the underlying plan as approved by the management; and<br><br>• 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 2019 Annual Report**

Other information consists of the information included in the Group's 2019 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 2019 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 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

**Independent Auditor's Report**
To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

**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 IFRS as endorsed in KSA 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.

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**Independent Auditor's Report**
To the Shareholders of Saudi Basic Industries Corporation (SABIC) (continued)
(A Saudi Arabian Joint Stock Company)

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

- 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: 8 Rajab 1441H
3 March 2020

| | Notes | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | *7* | 162,990,284 | 163,819,684 |
| Right of use assets | *8* | 7,065,965 | - |
| Intangible assets | *9* | 12,377,613 | 12,947,211 |
| Investments in associates and joint ventures | *10* | 23,350,394 | 25,780,550 |
| Investments in debt instruments | *11* | 1,345,592 | 2,493,880 |
| Investments in equity instruments | *12* | 1,046,009 | 1,090,109 |
| Deferred tax assets | *32* | 711,609 | 865,156 |
| Other non-current assets | *13* | 6,517,069 | 5,126,456 |
| Total non-current assets | | 215,404,535 | 212,123,046 |
| | | | |
| Current assets | | | |
| Inventories | *15* | 26,413,580 | 28,244,803 |
| Trade receivables | *16* | 18,322,552 | 21,821,849 |
| Prepayments and other current assets | *17* | 6,353,755 | 5,114,857 |
| Short-term investments | *18* | 5,558,554 | 9,815,499 |
| Cash and bank balances | *19* | 38,312,775 | 42,590,820 |
| Total current assets | | 94,961,216 | 107,587,828 |
| Total assets | | 310,365,751 | 319,710,874 |

| | Notes | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 20 | 30,000,000 | 30,000,000 |
| Statutory reserve | 21 | 15,000,000 | 15,000,000 |
| General reserve | 21 | 110,889,032 | 110,889,032 |
| Other reserves | 21 | (3,265,084) | (1,359,184) |
| Retained earnings | | 16,137,960 | 18,554,532 |
| Equity attributable to equity holders of the Parent | | 168,761,908 | 173,084,380 |
| Non-controlling interests | 22 | 42,489,414 | 48,352,095 |
| Total equity | | 211,251,322 | 221,436,475 |
| | | | |
| Non-current liabilities | | | |
| Long-term debt | 23 | 34,460,362 | 41,691,973 |
| Lease liabilities | 23 | 5,767,063 | 653,423 |
| Employee benefits | 24 | 18,048,848 | 15,000,025 |
| Deferred tax liabilities | 32 | 1,612,749 | 1,664,138 |
| Other non-current liabilities | | 1,778,171 | 1,384,327 |
| Total non-current liabilities | | 61,667,193 | 60,393,886 |
| | | | |
| Current liabilities | | | |
| Short-term borrowings | 23 | 1,346,996 | 1,167,589 |
| Current portion of long-term debt | 23 | 6,889,292 | 3,664,754 |
| Current portion of lease liabilities | 23 | 1,271,843 | 85,502 |
| Trade payables | 25 | 12,888,175 | 14,969,357 |
| Accruals and other current liabilities | 26 | 11,569,414 | 13,396,472 |
| Zakat and income tax payable | 32 | 3,481,516 | 4,596,839 |
| Total current liabilities | | 37,447,236 | 37,880,513 |
| Total liabilities | | 99,114,429 | 98,274,399 |
| Total equity and liabilities | | 310,365,751 | 319,710,874 |

| | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Revenue | *28* | 139,737,384 | 169,128,339 |
| Cost of sales | *29* | (104,217,191) | (111,287,016) |
| **Gross profit** | | 35,520,193 | 57,841,323 |
| | | | |
| General and administrative expenses | *29* | (10,677,188) | (11,161,018) |
| Selling and distribution expenses | *29* | (10,009,998) | (10,399,937) |
| **Income from operations** | | 14,833,007 | 36,280,368 |
| | | | |
| Share of results of associates and joint ventures | *10* | (1,595,349) | 1,049,850 |
| Finance income | *34* | 1,123,117 | 1,422,720 |
| Finance cost | *30 & 34* | (2,550,073) | (2,646,115) |
| | | (1,426,956) | (1,223,395) |
| Other expenses, net | *31* | (128,396) | (423,755) |
| **Income before zakat and income tax** | | 11,682,306 | 35,683,068 |
| Zakat expense | *32* | (2,100,000) | (2,600,000) |
| Income tax expense | *32* | (1,119,470) | (1,197,661) |
| **Net income for the year** | | 8,462,836 | 31,885,407 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the Parent | | 5,563,271 | 21,520,678 |
| Non-controlling interests | | 2,899,565 | 10,364,729 |
| | | 8,462,836 | 31,885,407 |
| | | | |
| **Basic and diluted earnings per share (Saudi Riyals)** | | | |
| Earnings per share from income from operations | *33* | 4.94 | 12.09 |
| Earnings per share from net income attributable to equity holders of the Parent | *33* | 1.85 | 7.17 |

| | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| Net income for the year | | 8,462,836 | 31,885,407 |
| Other comprehensive income | | | |
| *Items that will not be reclassified to the consolidated statement of income (net of tax):* | | | |
| - Re-measurement (loss) gain on defined benefit plans | 24 | (1,785,354) | 2,147,893 |
| - Share of other comprehensive (loss) income of associates and joint ventures | 10 & 21 | (30,764) | 1,596 |
| - Net change on revaluation of investments in equity instruments at FVOCI | 21 | (137,060) | 4,880 |
| - Deferred tax expense | 32 | (10,401) | (5,204) |
| | | (1,963,579) | 2,149,165 |
| *Items that will be reclassified to the consolidated statement of income:* | | | |
| - Exchange difference on translation of foreign operations | 21 | (328,231) | (1,301,215) |
| - Share of other comprehensive income of associates and joint ventures | 10 & 21 | 4,817 | 52,181 |
| | | (323,414) | (1,249,034) |
| Movement of other comprehensive (loss) income | | (2,286,993) | 900,131 |
| Total comprehensive income for the year | | 6,175,843 | 32,785,538 |
| Attributable to: | | | |
| Equity holders of the Parent | | 3,642,217 | 22,022,132 |
| Non-controlling interests | | 2,533,626 | 10,763,406 |
| | | 6,175,843 | 32,785,538 |

| | Attributable to the equity holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | General reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| 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 |
| Net income | - | - | - | - | 5,563,271 | 5,563,271 | 2,899,565 | 8,462,836 |
| Other comprehensive loss | - | - | - | (1,921,054) | - | (1,921,054) | (365,939) | (2,286,993) |
| Total comprehensive (loss) income | - | - | - | (1,921,054) | 5,563,271 | 3,642,217 | 2,533,626 | 6,175,843 |
| Acquisition of non-controlling interests (Note 22) | - | - | - | 15,154 | 5,220,157 | 5,235,311 | (847,811) | 4,387,500 |
| Transfer of non-controlling interests to non-current liabilities (Note 22) | - | - | - | - | - | - | (689,194) | (689,194) |
| Dividends (Note 40) | - | - | - | - | (13,200,000) | (13,200,000) | (6,859,302) | (20,059,302) |
| Balance as at 31 December 2019 | 30,000,000 | 15,000,000 | 110,889,032 | (3,265,084) | 16,137,960 | 168,761,908 | 42,489,414 | 211,251,322 |

| | Attributable to the equity holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | General reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| 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 | - | - | - | 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 | - | - | - | - | (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 |

| | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **Operating activities:** | | | |
| Income before zakat and income tax | | 11,682,306 | 35,683,068 |
| *Adjustment to reconcile income before zakat and income tax to net cash from operating activities:* | | | |
| - Depreciation of property, plant and equipment | *7* | 14,453,281 | 14,472,437 |
| - Depreciation of right of use assets | *8* | 1,603,705 | - |
| - Amortisation of intangible assets | *9* | 652,679 | 663,644 |
| - Impairments and write-offs of plant and equipment and intangible assets | *7 & 9* | 3,875,673 | 365,484 |
| - Impairments on equity instruments | | 14,084 | - |
| - Provision for slow moving and obsolete inventories, net | *15* | (21,628) | (60,228) |
| - Provision for doubtful debts, net | *16* | (79,396) | 3,320 |
| - Share of results of associates and joint ventures | *10* | 80,349 | (1,049,850) |
| - Impairment provision of associates and joint ventures | *10* | 1,515,000 | - |
| - Fair value adjustment to derivatives, net | | 29,270 | (39,206) |
| - Loss on sale/disposals of property, plant and equipment | *31* | 110,808 | 179,700 |
| - Finance costs | *30* | 2,550,073 | 2,646,115 |
| *Changes in operating assets and liabilities:* | | | |
| Decrease in other non-current assets | | 1,529,401 | 774,757 |
| Decrease (increase) in inventories | | 1,852,851 | (2,121,581) |
| Decrease in trade receivables | | 3,578,692 | 744,653 |
| Decrease in prepayments and other current assets | | 15,272 | 881,779 |
| (Decrease) increase in other non-current liabilities | | (292,088) | 185,249 |
| Decrease in trade payables | | (2,081,182) | (3,092,107) |
| Increase (decrease) in employee benefits | | 679,268 | (1,048,193) |
| (Decrease) increase in accruals and other current liabilities | | (249,592) | 1,592,453 |
| **Cash from operations** | | 41,498,826 | 50,781,494 |
| Finance cost paid | | (1,715,973) | (2,002,413) |
| Zakat and income tax paid | *32* | (4,209,924) | (4,007,987) |
| **Net cash from operating activities** | | 35,572,929 | 44,771,094 |

| | Notes | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|---|
| **Investing activities:** | | | |
| Purchase of property, plant and equipment | 7 | (19,618,362) | (14,165,177) |
| Short-term investments, net | | 4,860,469 | (5,279,537) |
| Proceeds on the maturity of investments in debt instruments | | 618,770 | 402,040 |
| Purchase of intangible assets | 9 | (236,826) | (71,058) |
| Proceeds from sale/disposals of property, plant and equipment | | - | 48,605 |
| Purchase of debt instruments | | (92,288) | - |
| Purchase of equity instruments | | (55,413) | (46,031) |
| Investments in associates and joint ventures | 10 | (338,271) | (10,954,760) |
| Dividend received from associates and joint ventures | 10 | 1,171,465 | 462,361 |
| **Net cash used in investing activities** | | (13,690,456) | (29,603,557) |
| **Financing activities:** | | | |
| Proceeds from debt | | 9,385,880 | 26,787,021 |
| Repayment of debt | | (13,658,938) | (37,480,836) |
| Lease payments | | (1,721,145) | (187,113) |
| Dividends paid to shareholders | | (13,190,127) | (12,059,538) |
| Dividends paid to non-controlling interests | | (8,228,095) | (8,736,246) |
| Acquisition of non-controlling interests | 22 | 1,125,000 | - |
| **Net cash used in financing activities** | 19 | (26,287,425) | (31,676,712) |
| Decrease in cash and cash equivalents | | (4,404,952) | (16,509,175) |
| Net foreign exchange loss on cash and cash equivalents | | (52,500) | (41,250) |
| Cash and cash equivalents at the beginning of the year | 19 | 41,423,231 | 57,973,656 |
| **Cash and cash equivalents at the end of the year** | 19 | 36,965,779 | 41,423,231 |

## 1. Corporate information

Saudi Basic Industries Corporation ("SABIC" or "the Parent") is a Saudi Joint Stock Company established pursuant to Royal Decree Number M/66 dated 13 Ramadan 1396H (corresponding to 6 September 1976) registered in Riyadh under commercial registration No. 1010010813 dated 14 Muharram 1397H (corresponding to 4 January 1977). SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia ("KSA") through the Public Investment Fund ("PIF") and 30% by the private sector. The registered office is located at Qurtubah district, P.O. Box 5101, Riyadh 11422, KSA.

On 27 March 2019, PIF and Saudi Arabian Oil Company ("Saudi Aramco") have signed a share purchase agreement pursuant to which Saudi Aramco has agreed to acquire all of PIF's stake in SABIC. Completion of the transaction is subject to customary closing conditions, including regulatory approvals. Upon completion of the transaction, Saudi Aramco will own 70% of SABIC's issued share capital.

At the end 2019, SABIC entered into a share-purchase agreement with Saudi Arabian Fertilizer Company ("SAFCO"), a listed subsidiary at Saudi Stock Exchange ("Tadawul"), under which SAFCO will acquire SABIC Agri-Nutrients Investment Company ("SANIC") in exchange for shares which will increase SABIC's shareholding in SAFCO from 42.99% to 50.1%, subject to shareholder and regulatory approvals.

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 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 3 March 2020.

## 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 endorsed 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 39).

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 IFRS 16 '*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

## 2. Basis of preparation and accounting policies (continued)

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of SABIC and subsidiaries 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 recognised 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.

<u>Transactions and balances</u>

Transactions in foreign currencies are initially recorded by the Group's subsidiaries 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. 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.

## 2. Basis of preparation and accounting policies (continued)

### 2.3 Foreign currencies (continued)

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 37)
- Sensitivity analysis disclosures (Notes 24 and 37)

### 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 9.

## 3. Significant accounting estimates, assumptions and judgements (continued)

### 3.1 Estimates and assumptions (continued)

#### 3.1.2 Incremental borrowing rate for lease agreements (Notes 8 and 23)

The Group cannot readily determine the interest rate implicit in the lease agreement, therefore, it uses its Incremental Borrowing Rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available, such as for subsidiaries that do not enter into financing transactions or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates.

#### 3.1.3 Measurement of financial instruments (Notes 11, 12, 14 & 16)

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. For fair value determination, these investments qualify as Level 3 (Note 2).

#### 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 24)

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. The assumptions are reviewed each reporting date.

Defined benefit obligations are discounted at a rate set by reference to relevant 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 32)

As part of the process of preparing consolidated financial statements, the Group estimates income tax in each of the jurisdictions it operates. This process involves estimating current tax expense and temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the related tax bases. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated statement of financial position. Deferred tax assets and liabilities are carried at nominal value.

## 3. Significant accounting estimates, assumptions and judgements (continued)

### 3.1 Estimates and assumptions (continued)

#### 3.1.6 Accounting for income tax (Note 32) (continued)

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 is probable that the taxable profit will be available against which the losses can be utilised. Significant management judgement 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.

#### 3.1.7 Accounting for options on own equity instruments

Call and put options on the Group's own equity instruments are recognised at Fair Value through Income Statement ("FVIS") at the end of each reporting period, if material. Estimating the fair value of these options requires determination of the most appropriate valuation model, which depends on the terms and conditions of the underlying joint venture agreement. This estimate requires determination of the expected life of the share option or appreciation right, probability of exercising of option, volatility and dividend yield and making assumptions about them.

### 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.

## 3. Significant accounting estimates, assumptions and judgements (continued)

### 3.2 Critical judgements in applying accounting standards (continued)

#### 3.2.2.1 Assessing control over consolidated subsidiaries (continued)

Management has considered the integration of all KSA investees (where the Group has equal or less than a majority of the voting rights) within the Group structure and located in the industrial cities in KSA, the ability of the Group to impact the majority of the variable returns of the investees through the provision of various key services to such investees, the relationship of the Group with other entities which may impact returns of investees, appointment of certain key management personnel and various other such factors.

Based on above considerations, the Group believes:

- There is a pattern of past and existing practice of the Group's involvement in the relevant activities of these investees resulting in an impact on their returns and also indicating a more than passive interest of the Group in such investees; and
- The Group has created an ecosystem in which the set-up and function of these investees and their inter-relationship with the Group leads towards a judgement of 'control'.

Hence, the Group has consolidated those KSA investees, which meet the above criteria as part of the Group's consolidated financial statements.

#### 3.2.3 Determining the lease term of contracts with renewal and terminations options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination clauses. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in the circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the contract.

## 4. Changes in accounting policies

### IFRS 16 – Leases

The Group has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified retrospective transition approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

The Group has not used the transition practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 (and IFRIC 4). In adopting IFRS 16, the Group has applied the following practical expedients:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months at 1 January 2019 as short-term leases
- 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
- 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.

## 4. Changes in accounting policies (continued)

### IFRS 16 – Leases (continued)

As at 1 January 2019, the Group has recognised lease liabilities amounting to SR 6.83 billion and associated right of use assets amounting to SR 7.29 billion in relation to contracts that have been concluded as leases under the principles of IFRS 16. The lease assets and liabilities previously recognised under finance leases, included under "Property, plant and equipment" were derecognised and additional lease liabilities were recognised under "Debts". The liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The associated right of use assets are measured at the amount equal to the lease liabilities, adjusted by the amount of prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The Group's weighted average incremental borrowing rate applied to the lease liabilities was 4.04%.

The following table shows the reconciliation of operating lease commitments under IAS 17 "*Leases*" to the lease liabilities under IFRS 16 on 1 January 2019:

| | 1 January 2019 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 8,905,562 |
| Less: discount using the Group's incremental borrowing rate | (1,980,916) |
| Less: short-term leases recognised on a straight-line basis as expense | (190,859) |
| Less: low-value leases recognised on a straight-line basis as expense | (19,493) |
| Add: contracts reassessed as lease agreements | 118,287 |
| | 6,832,581 |
| Add: finance lease liabilities recognised as at 31 December 2018 | 738,925 |
| Lease liabilities recognised as at 1 January 2019 | 7,571,506 |

### IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 '*Income Taxes*' ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation did not have an impact on the consolidated financial statements of the Group.

### 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 had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

## 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.

### 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.

### Amendments to IFRS 1 – Classification of Liabilities as Current or Non-Current

The Amendments in 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They clarify that:

- The classification of liabilities as current or non-current should be assessed on rights that are in existence at the end of the reporting period.
- Settlement refers to the transfer to the counterparty of cash, equity instruments or other assets or services.

The Amendments are effective from annual periods beginning on or after 1 January 2022 and should be applied retrospectively. Early adoption is permitted. The Group already applied these Amendments.

## 6. Summary of significant accounting polices

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 applying 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 financials 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 recognised 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 is measured at fair value with the changes in fair value recognised in the consolidated statement of income or OCI.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed. If the reassessment still results in an excess the gain is recognised in the consolidated statement of income.

6. Summary of significant accounting polices (continued)

Business combinations and goodwill (continued)

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.

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.

6. Summary of significant accounting polices (continued)

## Investments in associates and joint arrangements (continued)

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 based on 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 whatever is higher. The Group computes its zakat by using the zakat base. The zakat provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are adjusted in the period of their finalisation.

Current Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the relevant tax authorities.

Deferred tax

Deferred tax is provided for using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

6. Summary of significant accounting polices (continued)

## 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 recognises and depreciates them separately based on its specific useful lives. Likewise, when a major inspection is performed, its cost is recognised 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 recognised 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 recognised is de-recognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising on de-recognising 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.

*Group as lessee*

Leases are recognised as right of use assets along with their corresponding liabilities at the date of which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is recognised in the consolidated statement of income over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right of use assets are initially measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs; if applicable.

Lease liabilities include, if applicable, the net present value of fixed payments including in-substance fixed payments, less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

6. Summary of significant accounting polices (continued)

Leases

*Short-term and low value assets' leases*
Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Group's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Group as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the consolidated statement of income.

*Variable lease payments*
Some leases contain variable payments that are linked to the usage or performance of the leased asset. Such payments are recognised in the consolidated statement of income.

*Extension and termination options*
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within control.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

6. Summary of significant accounting polices (continued)

## 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 amortisation 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 amortisation 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 amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible asset.

Research costs are expensed as incurred. Development expenditures on an individual project are recognised 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

Amortisation 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. Amortisation 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 amortisation 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 |

6. Summary of significant accounting polices (continued)

## 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 using a terminal value.

Impairment losses of continuing operations, including impairment on working capital, if applicable, are recognised 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 recognised 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 recognised 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 recognised. Such reversal is recognised 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 recognised. 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.

Loans as well as trade receivables, which are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interests, are measured at amortised cost.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

## 6. Summary of significant accounting polices (continued)

### Financial assets (continued)

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. 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

For purposes of subsequent measurement, financial assets are classified in four categories:

- *Financial assets at amortised cost (Debt Instruments)*

  Financial assets at amortised cost are subsequently measured using the Effective Interest Rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

- *Financial assets at 'Fair Value through Other Comprehensive Income' ("FVOCI") with recycling of cumulative gains and losses (Debt Instruments)*

  For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon de-recognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

- *Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (Equity Instruments)*

  SABIC measures all equity investments at fair value and presents changes in fair value of equity investments in OCI. Dividends from such investments continue to be recognised in the consolidated statement of income as other income when the SABIC's right to receive payments is established. Gains and losses on these financial assets are never recycled to the consolidated statement of income.

- *Financial assets at Fair Value through Income Statement ("FVIS")*

  Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI are measured at FVIS. A gain or loss on a debt investment that is subsequently measured at fair value through the income statement and which is not part of a hedging relationship is recognised and presented net in the consolidated statement of income in the period in which it arises.

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.

## 6. Summary of significant accounting polices (continued)

### Financial assets (continued)

Impairment

Management 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, management applies the simplified approach in calculating ECL's. Therefore, management does not track changes in credit risk, but instead recognised a loss allowance base on lifetime ECL's at each reporting date. Management 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.

### 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 classified as held for trading.

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 the 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.

6. Summary of significant accounting polices (continued)

## Financial liabilities (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

De-recognition

A financial liability is de-recognised when the obligation under the liability is settled or discharged. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

## Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is disclosed in the consolidated statement of financial position if there is a currently enforceable legal right to offset recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

## Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to yield curves for similar instruments.

## Inventories

Inventories, including raw materials, work in progress, finished goods, and consumables and spare parts are measured at the lower of cost i.e. historical purchase prices based on the weighted average principle plus directly attributable costs or the net realisable value. Inventories of work in progress and finished goods include cost of materials, labour and an appropriate proportion of direct overheads.

## 6. Summary of significant accounting polices (continued)

### Cash dividend paid to equity holders of the Parent

The Group recognises a liability to make cash distribution to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. In accordance with the Companies Law in KSA, a distribution is authorised when it is approved by the shareholders. Interim dividends, if any, are recorded when approved by the Board of Directors. A corresponding amount is recognised directly in the consolidated statement of changes in equity.

### Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

Environmental obligations

In accordance with the Group's environmental policy and applicable legal requirements, the Group recognises a provision for environmental clean-up cost when it is probable that a legal or constructive liability has materialised and the amount of cash outflow can be reasonably estimated.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost meeting its obligation under the contract.

De-commissioning liability

The Group records a provision for de-commissioning costs of manufacturing facilities when an obligation exists. De-commissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the de-commissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of income as a finance cost. The estimated future cost of de-commissioning is reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

### Employee benefits

Long-term employee benefit obligations

Long-term employee benefit obligations are measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method and recorded as non-current liabilities. Consideration is given to expected future salary increase and historic attrition rates. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate or government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of changes in actuarial assumptions are recognised in the consolidated statement of comprehensive income. The Group offers various post-employment schemes, including both defined contribution and defined benefit plans, and post-employment medical and life insurance plans for eligible employees and their dependents.

6. Summary of significant accounting polices (continued)

Employee benefits (continued)

Long-term employee benefit obligations (continued)

*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 other legal or constructive obligation. The contributions are recognised as employee benefit expense in the consolidated statement of income when they are due.

Within KSA, the Group offers a saving plan to encourage its Saudi employees to make savings in a manner that will warrant an increase in their income and contribute to securing their future according to the established plan. The saving contributions from the participants are deposited in a separate bank account other than the Group's normal operating bank accounts (but not in any separate legal entity). This cash is a restricted balance, and for the purpose of presentation in the financial statements, it is offset with the related liability under the savings plan and the net liability to employees is reported under the employee benefits liability.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group primarily has end of service benefits, defined benefit pension plans and post-retirement medical and life insurance plans, which qualify as defined benefit plans.

*End of service benefits and pension plans*

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour and Workmen Law as well as the Group's policy. In other countries, the respective labour laws are taken into consideration.

The net pension asset or liability recognised in the consolidated statement of financial position in respect of defined benefit post-employment plans is the present value of the projected Defined Benefits Obligation ("DBO") less the fair value of plan assets, if any, at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost are calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets.

Service 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.

6. Summary of significant accounting polices (continued)

## Employee benefits (continued)

Long-term employee benefit obligations (continued)

*End of service benefits and pension plans (continued)*

Current and past service costs related to post-employment benefits are recognised immediately in the consolidated statement of income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

Employee Home Ownership Program (“HOP”)

Certain companies within the Group have established employee’s HOP that offer eligible employees the opportunity to buy residential units constructed by these subsidiaries through a series of payments over a particular number of years. Ownership of the houses is transferred upon completion of full payment.

Under the HOP, the amounts paid by the employee towards the house are repayable back to the employee in case the employee discontinues employment and the house is returned back to the Group. HOP is recognised as a non-current prepayment asset at time the residential units are allocated to the employees and are amortised over the repayment period of the facility due from employees.

Employee Home Loan Program (“HLP”)

The Group provides interest free home loan to its eligible employees for purposes related to purchase or building of a house or apartment. The loan is repaid in monthly instalment by deduction of employee’s pay.

HLP is recognised as a non-current financial asset at fair value and measured at amortised cost using the EIR method. The difference between the fair value and the actual amount of cash given to the employee is recognised as a “non-current prepaid employee benefit” and is amortised as an expense equally over the period of service. The same amount is also amortised as finance income against the receivable from employees.

## Revenue recognition

Sales revenue

The Group recognises revenue when control of the products sold, transfers to the customer, which shall be considered in the context of a five-step approach and applying the applicable shipping terms.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue arrangements are assessed against specific criteria to determine whether the Group is acting as a principal or agent.

*Rights of return*

When a contract with a customer provides a right of return of the good within a specified period, the Group accounts for the right of return when requested by the customer and contractual conditions are met.

*Allocation of performance obligations*

In certain instances, the Group determines delivery services as separately identifiable and distinct from the sale of goods. These are when the Group transfers control of goods at the Group’s loading site and provides delivery services to the buyer’s site. The Group allocates a portion of the total transaction price to delivery services based on a best estimate of a similar stand-alone service.

6. Summary of significant accounting polices (continued)

## Revenue recognition (continued)

*Variable pricing – preliminary pricing*

Certain products in certain markets may be sold with variable pricing arrangements. Such arrangements determine that a preliminary price is charged to the customer at the time of transfer of control of the products while the final price for the products can only be determined by reference to a time period ending after that time. In such cases, and irrespective of the formula used for determining preliminary and final prices, revenue is recorded at the time of transfer of control of the products at an amount representing the expected final amount of consideration that the Group receives.

Where the Group records an 'accounts receivable' for the preliminary price, subsequent changes in the estimated final price shall not be recorded as revenue until such point in time at which the actual final price is determined (as long as these changes result from changes in the market price/market price index of the products). They may however be considered in subsequent re-measurement as a financial asset at fair value. Such re-measurement may be recorded as a separate revenue.

All other updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or contract liability. Such contract asset or liability is de-recognised against an accounts receivable at the point in time at which the actual final price is determined.

*Variable pricing – volume rebates*

The Group provides retrospective volume rebates to its customers on products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group estimates the expected volume rebates using a prudent assessment of the expected amount of rebates, reviewed and updated on a regular basis. These amounts will subsequently be repaid in cash to the customer or are offset against amounts payable by the customer, if allowed by the contract.

Volume rebates give rise to variable consideration. The Group considers the "most likely amount" method to be the best estimate of this variable consideration.

<u>Rendering of services</u>

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.

## 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 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment | Furniture and fixtures | Vehicles | Finance lease | Assets under construction | Total |
| Cost: | | | | | | | |
| At the beginning of the year | 32,568,001 | 294,428,552 | 1,046,979 | 745,682 | 1,326,263 | 20,267,943 | 350,383,420 |
| Additions | 341,811 | 3,247,301 | 11,250 | 14,859 | - | 16,003,141 | 19,618,362 |
| Transfers (Note 8) | 354,226 | 8,101,015 | 39,553 | 3,279 | (1,326,263) | (8,436,525) | (1,264,715) |
| Other transfers (i) | - | - | - | - | - | (1,567,961) | (1,567,961) |
| Write-offs | (110) | (750,129) | (1,617) | (46,084) | - | (179,383) | (977,323) |
| Disposals | (175,560) | (2,757,053) | (18,494) | (7,637) | - | - | (2,958,744) |
| Currency translation | (105,025) | (123,467) | (3,699) | (304) | - | (3,044) | (235,539) |
| At the end of the year | 32,983,343 | 302,146,219 | 1,073,972 | 709,795 | - | 26,084,171 | 362,997,500 |
| Accumulated depreciation and impairment: | | | | | | | |
| At the beginning of the year | (15,616,034) | (168,831,092) | (792,790) | (579,320) | (709,901) | (34,599) | (186,563,736) |
| Charge for the year | (1,028,799) | (13,324,266) | (63,532) | (36,684) | - | - | (14,453,281) |
| Transfers (Note 8) | 115,010 | (111,383) | (1,881) | 1,878 | 709,901 | 7,092 | 720,617 |
| Impairment | (107,106) | (2,835,521) | (1,323) | - | - | (402,208) | (3,346,158) |
| Write-offs | 48 | 606,532 | 1,617 | 46,084 | - | - | 654,281 |
| Disposals | 170,752 | 2,651,288 | 18,315 | 7,581 | - | - | 2,847,936 |
| Currency translation | 51,932 | 78,184 | 2,813 | 196 | - | - | 133,125 |
| At the end of the year | (16,414,197) | (181,766,258) | (836,781) | (560,265) | - | (429,715) | (200,007,216) |
| Net book value: | | | | | | | |
| At 31 December 2019 | 16,569,146 | 120,379,961 | 237,191 | 149,530 | - | 25,654,456 | 162,990,284 |
| At 1 January 2019 | 16,951,967 | 125,597,460 | 254,189 | 166,362 | 616,362 | 20,233,344 | 163,819,684 |

(i) Includes transfers of housing units constructed for employees to other non-current assets

## 7 Property, plant and equipment (continued)

| | For the year ended 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment | Furniture and fixtures | Vehicles | Finance lease | Assets under construction | Total |
| Cost: | | | | | | | |
| 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 (i) | 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 | (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 |
| Accumulated depreciation and impairment: | | | | | | | |
| 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) |
| Transfers | (22,193) | (1,046,616) | 5,853 | (48) | - | 937,022 | (125,982) |
| Impairment | - | (303,750) | - | - | - | - | (303,750) |
| Disposals | 143,179 | 936,681 | 12,388 | 20,620 | 577 | - | 1,113,445 |
| Currency translation | 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 value: | | | | | | | |
| 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.

## 7 Property, plant and equipment (continued)

### Allocation of depreciation charge for the year

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Cost of sales | **13,743,118** | 13,903,349 |
| General and administrative expenses | **651,524** | 509,351 |
| Selling and distribution expenses | **58,639** | 59,737 |
| | **14,453,281** | 14,472,437 |

### 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. The Group has similar kind of arrangements and terms for some sites in Europe.

Land and buildings include an amount of SR 2.04 billion as of 31 December 2019 (2018: 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 affiliates. The related capital commitments are reported in Note 38.

### Capitalised borrowing costs

The borrowing cost capitalised during the year ended 31 December 2019 amounted to SR 3.03 million (2018: SR 38.72 million), out of which SR 3.03 million (2018: SR 15.15 million) relate to non-conventional facilities. The Group uses the capitalisation rate of 4% (2018: 4%) to determine the amount of borrowing costs eligible for capitalisation.

### Pledged property, plant and equipment

Property, plant and equipment of certain subsidiaries in the KSA are pledged to the Saudi Industrial Development Fund ("SIDF") as security for its term loans amounting to SR 30.42 billion (2018: SR 34.62 billion).

Certain leased assets are pledged as security for the related lease and hire liabilities.

### Impairment and write-offs of plant and equipment

During the year ended 31 December 2019, impairment and write-offs, amounting to SR 3.67 billion (2018: SR 0.30 billion), was recorded against plant and equipment, mainly for Petrochemicals SBU assets, which are or will be taken out of production. These were mostly recognised in the below two subsidiaries:

- Arabian Industrial Fibers Company ("Ibn Rushd"), where due to a changing market environment, the company revised its business model leading to the closure of certain assets in the course of 2020. An impairment loss was recognised in the consolidated statement of income as part of cost of sales, amounting to SR 2.7 billion.
- Saudi Methanol Company ("Ar-Razi") has idled a plant from its production portfolio as of 1 January 2020, as it no longer meets certain governmental regulations anymore. The book value of this plant and capitalized spare parts amounting to SR 246 million has been written-off and recognised in the consolidated statement of income as other expenses.

## 8 Right of use assets

| | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment | Storage and tanks | Vessels and Vehicles | Total |
| **Cost:** | | | | | |
| At the beginning of the year | - | - | - | - | - |
| IFRS 16 adoption (Note 4) | 4,017,817 | 149,237 | 1,024,249 | 2,103,994 | 7,295,297 |
| Transfers from property, plant and equipment at transition | 45,752 | 1,213,819 | - | 5,144 | 1,264,715 |
| Additions | 429,550 | 258,912 | 10,454 | 427,504 | 1,126,420 |
| Re-measurement | (144,657) | (10,472) | (4,535) | (84,578) | (244,242) |
| Currency translation adjustment | (12,731) | (2,384) | (13,238) | (19,116) | (47,469) |
| At the end of the year | 4,335,731 | 1,609,112 | 1,016,930 | 2,432,948 | 9,394,721 |
| **Accumulated depreciation:** | | | | | |
| At the beginning of the year | - | - | - | - | - |
| Charge for the year | (600,397) | (187,923) | (217,976) | (597,409) | (1,603,705) |
| Transfers | (20,589) | (697,936) | - | (2,092) | (720,617) |
| Re-measurement | (2,449) | - | (3,446) | 209 | (5,686) |
| Currency translation adjustment | 182 | 1,168 | (72) | (26) | 1,252 |
| At the end of the year | (623,253) | (884,691) | (221,494) | (599,318) | (2,328,756) |
| Net book value: | | | | | |
| At 31 December 2019 | 3,712,478 | 724,421 | 795,436 | 1,833,630 | 7,065,965 |

Allocation of depreciation charge for the year

| | For the year ended 31 December 2019 |
|---|---|
| Cost of sales | 1,172,418 |
| General and administrative expenses | 376,286 |
| Selling and distribution expenses | 55,001 |
| | 1,603,705 |

9 Intangible assets

| | For the year ended 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Software and IT development | Licenses | Others (i) | Intangibles under development | Total |
| **Cost:** | | | | | | |
| At the beginning of the year | 8,743,895 | 2,153,448 | 10,181,769 | 54,254 | 3,045 | 21,136,411 |
| Additions | - | 3,595 | 94,335 | - | 138,896 | 236,826 |
| Transfers | - | 52,455 | 108,671 | (476) | - | 160,650 |
| Write-offs | - | (41,515) | (16,977) | (3,302) | - | (61,794) |
| Currency translation adjustment | (105,378) | (7,084) | (20,098) | (1,009) | - | (133,569) |
| At the end of the year | 8,638,517 | 2,160,899 | 10,347,700 | 49,467 | 141,941 | 21,338,524 |
| **Accumulated amortisation:** | | | | | | |
| At the beginning of the year | - | (1,631,010) | (6,545,451) | (12,739) | - | (8,189,200) |
| Charge for the year | - | (188,054) | (463,865) | (760) | - | (652,679) |
| Impairment and write-offs | - | 41,359 | (189,340) | 3,302 | - | (144,679) |
| Currency translation adjustment | - | 4,531 | 20,978 | 138 | - | 25,647 |
| At the end of the year | - | (1,773,174) | (7,177,678) | (10,059) | - | (8,960,911) |
| Net book value: | | | | | | |
| At 31 December 2019 | 8,638,517 | 387,725 | 3,170,022 | 39,408 | 141,941 | 12,377,613 |
| At 1 January 2019 | 8,743,895 | 522,438 | 3,636,318 | 41,515 | 3,045 | 12,947,211 |

9 Intangible assets (continued)

| | For the year ended 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Software and IT development | Licenses | Others (i) | Intangibles under development | Total |
| Cost: | | | | | | |
| 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 10) | - | - | 201,668 | - | - | 201,668 |
| Transfers | - | 44,376 | 65,514 | (49,145) | (28,903) | 31,842 |
| Write-offs | (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 |
| Accumulated amortisation: | | | | | | |
| 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-offs | - | 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 value: | | | | | | |
| 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 |

(i) Others includes trademarks, customer lists, (un)patented technology, in-house developed software and technology and innovation assets.

## 9 Intangible assets (continued)

Allocation of amortisation charge for the year

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Cost of sales | 231,394 | 229,576 |
| General and administrative expenses | 416,318 | 431,885 |
| Selling and distribution expenses | 4,967 | 2,183 |
| | 652,679 | 663,644 |

*Goodwill*

Goodwill, resulting from the Group's acquisitions in 2002 and 2007, has been allocated to the Group's SBUs that represent its 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 5.82 billion and for Specialties to SR 2.82 billion. The Weighted Average Cost of Capital ("WACC") rate applied at Group's level is 8.0% for Petrochemicals (2018: 7.1%) and for Specialties 8.2% (2018: 7.7%).

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 21%-23% (2018: 23%-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 0.8%-2.0% (2018: 1.1%- 2.0%).

For 2019, no impairment was recognised (2018: SR 0.098 billion which was determined based on the fair value less cost of disposal).

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.

## 10 Investments in associates and joint ventures

The table below outlines the Group's investment in associates and joint venture companies:

| Name of associates and joint ventures | Ownership % | Place of business / country of incorporation | Nature of activities | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|---|
| Associate: | | | | | |
| Gulf Petrochemical Industries Company ("GPIC") | 33.33 | Bahrain | Petrochemical | 657,748 | 697,515 |
| Ma'aden Phosphate Company ("MPC") | 30.00 | KSA | Agri-nutrients | 2,130,182 | 2,125,868 |
| Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ") | 24.81 | KSA | Utilities | 1,727,310 | 1,696,036 |
| Aluminium Bahrain BSC ("ALBA") | 20.62 | Bahrain | Aluminium | 2,214,895 | 2,227,253 |
| National Chemical Carrier Company ("NCC") | 20.00 | KSA | Transportation | 310,015 | 301,975 |
| Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC") | 15.00 | KSA | Agri-nutrients | 1,665,245 | 1,876,238 |
| Saudi Arabian Industrial Investment Company ("Dussur") | 25.00 | KSA | Investments | 372,762 | 115,706 |
| Clariant AG ("Clariant") (Note 10.1) | 24.99 | Switzerland | Specialty chemical | 8,685,005 | 10,550,156 |
| Joint venture: | | | | | |
| Sinopec Sabic Tianjin Petrochemical Company ("SSTPC") | 50.00 | China | Petrochemical | 4,212,360 | 4,770,486 |
| Sabic SK Nexlene Company ("SSNC") | 50.00 | Singapore | Petrochemical | 495,189 | 544,729 |
| Others | | - | - | 879,683 | 874,588 |
| | | | | 23,350,394 | 25,780,550 |

## 10 Investments in associates and joint ventures (continued)

### 10.1 Investment in Clariant A.G.

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.

The Group paid a consideration of SR 10.82 billion, which includes goodwill amounting to SR 5.38 billion.

On 18 September 2018, SABIC and Clariant announced their long-term strategic relationship. On 25 July 2019, Clariant and SABIC announced that the negotiations for this potential strategic initiative was deferred due to market circumstances. Subsequently, Clariant announced their decision to divest their Masterbatches BU and recognised a significant provision related to a price competition investigation within the European Union. All these events had a significant negative influence on Clariant's listed share price. Since the acquisition, the fair value of Clariant shares decreased, with the lowest quotation since SABIC acquired the shares, on 15 August 2019 at a closing rate of CHF 17.09 per share.

During 2019, management reassessed the carrying value of its investment in Clariant comparing the higher of fair value less cost of disposal and value in use approach. This assessment is based on publicly available information and average analyst consensus regarding the development of the 12-month forecast of the Clariant share price, including a reasonable premium given the fact that SABIC has significant influence on this investment through its 24.99% share. As a result, the Group recorded an impairment provision of SR 1.52 billion.

## 10 Investments in associates and joint ventures (continued)

The movement of investments in associate and joint venture is as follows:

| | For the year ended 31 December 2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Associates | | | | | | | | Joint ventures | | | |
| | GPIC | MPC | MARAFIQ | ALBA | NCC | MWSPC | Dussur | Clariant | SSTPC | SSNC | Others | Total |
| Balance at the beginning of the year | 697,515 | 2,125,868 | 1,696,036 | 2,227,253 | 301,975 | 1,876,238 | 115,706 | 10,550,156 | 4,770,486 | 544,729 | 874,588 | 25,780,550 |
| Capital contribution | - | - | - | - | - | - | 283,092 | - | - | - | 55,179 | 338,271 |
| Share of results (i) | 38,955 | 4,744 | 45,594 | (12,358) | 7,933 | (210,999) | (26,036) | (233,617) | 447,902 | (19,147) | (123,320) | (80,349) |
| Impairment | - | - | - | - | - | - | - | (1,515,000) | - | - | - | (1,515,000) |
| | 38,955 | 4,744 | 45,594 | (12,358) | 7,933 | (210,999) | (26,036) | (1,748,617) | 447,902 | (19,147) | (123,320) | (1,595,349) |
| Movements in OCI | (33,722) | (430) | 11,881 | - | 107 | 6 | - | 54,588 | (27,984) | (30,393) | - | (25,947) |
| Dividends received | (45,000) | - | (26,201) | - | - | - | - | (171,122) | (929,142) | - | - | (1,171,465) |
| Others | - | - | - | - | - | - | - | - | (48,902) | - | (ii) 73,236 | 24,334 |
| Balance at the end of the year | 657,748 | 2,130,182 | 1,727,310 | 2,214,895 | 310,015 | 1,665,245 | 372,762 | 8,685,005 | 4,212,360 | 495,189 | 879,683 | 23,350,394 |

(i) The Group's share of results in associates' net income recorded after fair value adjustments and changes in estimated results.

(ii) Share of results on the face of the statement of income includes losses of SR 61 million (2018: nil) related to entities under liquidation for which previous losses were recognised up to the investment value.

## 10 Investments in associates and joint ventures (continued)

| | For the year ended 31 December 2018 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Associates | | | | | | | | Joint ventures | | | | |
| | GPIC | GARMCO | MPC | MARAFIQ | ALBA | NCC | MWSPC | Dussur | Clariant (i) | SSTPC | SSNC | Others | 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 | - | 4,031,268 | 583,084 | 870,125 | 14,304,140 |
| Capital contribution | - | - | - | - | - | - | - | - | 10,822,077 | 190,475 | - | 132,683 | 11,145,235 |
| Share of results | 106,803 | (83,026) | 163,160 | (7,977) | 150,543 | (29,677) | 77,169 | (28,905) | (106,973) | 831,728 | 1,297 | (24,292) | 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 | - | - | - | - | - | - | - | - | - | (15,688) | - | (ii) (103,928) | (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 | 4,770,486 | 544,729 | 874,588 | 25,780,550 |

(i) 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.

(ii) Others include obtaining control of Black Diamond Structures, LLC as well as other movements in joint ventures.

10 Investments in associates and joint ventures (continued)

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.

| | As at 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | MPC | MARAFIQ | ALBA | MWSPC (i) | Clariant (ii) |
| Current assets | 3,060,914 | 2,420,667 | 4,555,338 | 2,238,704 | 15,598,896 |
| Non-current assets | 14,237,395 | 19,602,573 | 19,520,054 | 26,493,219 | 28,379,978 |
| Current liabilities | 1,792,801 | 1,967,942 | 4,544,922 | 2,497,633 | 10,467,834 |
| Non-current liabilities | 8,404,900 | 13,093,147 | 8,788,981 | 18,599,326 | 14,221,039 |
| Net assets | 7,100,608 | 6,962,151 | 10,741,489 | 7,634,964 | 19,290,001 |
| Reconciliation: | | | | | |
| Group's share in % | 30.00% | 24.81% | 20.62% | 15.00% | 24.99% |
| Group's share in associate | 2,130,182 | 1,727,310 | 2,214,895 | 1,145,245 | 4,820,571 |
| Intangible / goodwill | - | - | - | 520,000 | 5,379,434 |
| Impairment provision | - | - | - | - | (1,515,000) |
| Carrying amount | 2,130,182 | 1,727,310 | 2,214,895 | 1,665,245 | 8,685,005 |

| | For the year ended 31 December 2019 | | | | |
|---|---|---|---|---|---|
| Revenue | 4,131,423 | 3,852,630 | 10,241,576 | 3,454,285 | 16,866,641 |
| Net income (loss) for the year - all from continuing operations | 15,814 | 246,245 | 53,569 | (1,244,981) | (130,363) |
| Reconciliation: | | | | | |
| Group's share in % | 30.00% | 24.81% | 20.62% | 15.00% | 24.99% |
| Group's share in associate | 4,744 | 61,093 | 11,046 | (186,747) | (32,578) |
| Share in earnings (losses) | 4,744 | 45,594 | (12,358) | (210,999) | (1,748,617) |

(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 investments in Clariant is recorded after fair value adjustments.

10 Investments in associates and joint ventures (continued)

Summarised financial information of associates (continued)

| | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | MPC | MARAFIQ | ALBA | MWSPC (i) | Clariant (ii) |
| Current assets | 2,837,269 | 3,349,284 | 4,507,876 | 3,763,582 | 12,727,365 |
| Non-current assets | 14,624,827 | 19,186,046 | 17,034,081 | 27,180,114 | 31,803,920 |
| Current liabilities | 1,547,546 | 2,959,695 | 4,204,279 | 2,330,057 | 8,770,556 |
| Non-current liabilities | 8,828,324 | 12,739,537 | 6,536,255 | 19,705,388 | 14,746,700 |
| Net assets | 7,086,226 | 6,836,098 | 10,801,423 | 8,908,251 | 21,014,029 |
| Reconciliation: | | | | | |
| Group's share in % | 30.00% | 24.81% | 20.62% | 15.00% | 24.99% |
| Group's share in associate | 2,125,868 | 1,696,036 | 2,227,253 | 1,336,238 | 5,251,406 |
| Intangible / goodwill | - | - | - | 540,000 | 5,298,750 |
| Carrying amount | 2,125,868 | 1,696,036 | 2,227,253 | 1,876,238 | 10,550,156 |

| | For the year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| Revenue | 5,215,648 | 4,053,837 | 9,075,806 | 1,163,825 | 25,393,900 |
| Net income for the year - all from continuing operations | 705,082 | 228,214 | 594,270 | 415,816 | 1,364,975 |
| Reconciliation: | | | | | |
| Group's share in % | 30.00% | 24.81% | 20.62% | 15.00% | 24.99% |
| Group's share in associate | 211,525 | 56,620 | 122,538 | 62,372 | 341,107 |
| Share in earnings (losses) | 163,160 | (7,977) | 150,543 | 77,169 | (106,973) |

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.

10 Investments in associates and joint ventures (continued)

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.

| | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|
| Cash and bank balances | 1,740,156 | 2,778,440 |
| Total current assets | 4,156,010 | 4,956,637 |
| Non-current assets | 8,753,735 | 8,384,204 |
| | | |
| Current financial liabilities (excluding trade payables) | 799,634 | 785,666 |
| Total current liabilities | 1,822,727 | 1,634,680 |
| Total non-current liabilities | 2,662,298 | 2,165,189 |
| | | |
| Net assets | 8,424,720 | 9,540,972 |
| | | |
| Reconciliation: | | |
| Group's share in % | 50.00% | 50.00% |
| Group's share in joint venture | 4,212,360 | 4,770,486 |
| Carrying amount | 4,212,360 | 4,770,486 |

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Revenue | 8,554,640 | 10,334,966 |
| Depreciation and amortisation | 594,167 | 483,784 |
| Interest income | 93,061 | 94,355 |
| Interest expense | (72,547) | (95,467) |
| Income tax expense | (289,345) | (559,773) |
| Net income for the year - all from continuing operations | 895,804 | 1,663,456 |
| | | |
| Reconciliation: | | |
| Group's share in % | 50.00% | 50.00% |
| Group's share of earnings in joint venture | 447,902 | 831,728 |
| Share of earnings | 447,902 | 831,728 |

10 Investments in associates and joint ventures (continued)

Summarised financial information of individually immaterial associates and joint venture

| | For the year ended 31 December 2019 | | For the year ended 31 December 2018 | |
|---|---|---|---|---|
| | Individually immaterial associates | Individually immaterial joint ventures | Individually immaterial associates | Individually immaterial joint ventures |
| Net income (loss) for the year - all from continuing operations | 220,857 | (38,293) | 556,571 | 20,013 |

Fair value of listed associates

The fair value of the Group's investment in ALBA and Clariant based on its trading price at 31 December 2019 is SR 1.22 billion and SR 6.94 billion (Note 10.1) respectively (2018: SR 1.75 billion and SR 5.72 billion).

11 Investments in debt instruments

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Current (in short-term investments –Note 18)* | | |
| Fixed rate instruments | 562,366 | 93,750 |
| Floating rate instrument | 524,080 | 481,460 |
| | 1,086,446 | 575,210 |
| *Non-current* | | |
| Fixed rate instruments | 591,920 | 1,146,865 |
| Floating rate instrument | 753,672 | 1,347,015 |
| | 1,345,592 | 2,493,880 |
| | 2,432,038 | 3,069,090 |

*Currency exposure*

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| SR | 1,664,667 | 1,641,779 |
| USD | 767,371 | 1,427,311 |
| | 2,432,038 | 3,069,090 |

## 12 Investments in equity instruments

Carrying value of the investments in equity instruments are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Unlisted securities* | | |
| Equity securities | 732,868 | 784,815 |
| Mutual fund units | 313,141 | 305,294 |
| | 1,046,009 | 1,090,109 |

## 13 Other non-current assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Employee advances | 4,050,066 | 3,585,847 |
| Receivables from Japan Saudi Arabia Methanol Company, Inc. ("JSMC") (Note 22) | 1,606,049 | - |
| Loan receivable from related parties | 96,075 | 620,029 |
| Pre-paid mining fee | 112,500 | 112,500 |
| Others | 652,379 | 808,080 |
| | 6,517,069 | 5,126,456 |

### 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.

### Others
Others mainly include advances to contractors and miscellaneous items

## 14 Financial assets and financial liabilities

| | Notes | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | Financial assets / liabilities at amortised cost | Financial assets / liabilities at FVIS | Financial assets at FVOCI | Fair value (ii) | Level I | Level II | Level III |
| *Financial assets* | | | | | | | | | |
| Investments in debt instruments | | | | | | | | | |
| - Fixed | *11* | 1,154,286 | 1,154,286 | - | - | 1,405,304 | - | 1,405,304 | - |
| - Floating | *11* | 1,277,752 | 894,960 | 382,792 | - | 1,290,835 | - | 1,290,835 | - |
| Unquoted equity instruments | *12* | 1,046,009 | - | 320,807 | 725,202 | 1,046,009 | - | 783,355 | 262,654 |
| Trade receivables | *16* | 18,322,552 | 18,322,552 | - | - | N/A | - | - | - |
| Short-term investments | | | | | | | | | |
| - Time deposits | *18* | 4,379,820 | 4,379,820 | - | - | N/A | - | - | - |
| - Other short-term investments | *18* | 92,288 | - | 92,288 | - | 92,288 | 92,288 | - | - |
| Cash and bank balances | | | | | | | | | |
| - Cash and bank balances | *19* | 10,019,848 | 10,019,848 | - | - | N/A | - | - | - |
| - Time deposits | *19* | 28,292,927 | 28,292,927 | - | - | N/A | - | - | - |
| Other financial assets (i) | | 3,104,355 | 3,104,355 | - | - | N/A | - | - | - |
| | | 67,689,837 | 66,168,748 | 795,887 | 725,202 | 3,834,436 | 92,288 | 3,479,494 | 262,654 |
| *Financial liabilities* | | | | | | | | | |
| Debt | *23* | 42,696,650 | 42,696,650 | - | - | 44,088,567 | - | 44,088,567 | - |
| Lease liabilities (iii) | *23* | 7,038,906 | 7,038,906 | N/A | N/A | N/A | - | - | - |
| Trade payables | *25* | 12,888,175 | 12,888,175 | - | - | N/A | - | - | - |
| Other financial liabilities (i) | | 2,191,103 | 2,191,103 | - | - | N/A | - | - | - |
| | | 64,814,834 | 64,814,834 | - | - | 44,088,567 | - | 44,088,567 | - |

(i) Other financial assets include lease receivables, loans to related parties and interest receivables. Other financial liabilities include dividend payable, payables to related parties and interest payables.

(ii) 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.

(iii) Lease liabilities are recognised according to IFRS 16. In accordance with IFRS 7.29(d), disclosures on the fair value of lease liabilities are not required.

## 14 Financial assets and financial liabilities (continued)

| | Notes | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | Financial assets / liabilities at amortised cost | Financial assets / liabilities at FVIS | Financial assets at FVOCI | Fair value (ii) | Level I | Level II | Level III |
| *Financial assets* | | | | | | | | | |
| Investments in debt instruments | | | | | | | | | |
| - Fixed | *11* | 1,240,615 | 1,240,615 | - | - | 1,720,920 | - | 1,720,920 | - |
| - Floating | *11* | 1,828,475 | 1,441,498 | 386,977 | - | 1,692,752 | - | 1,692,752 | - |
| Investments in equity instruments | | | | | | | | | |
| - Unquoted | *12* | 1,090,109 | - | 317,669 | 772,440 | 1,090,109 | - | 907,343 | 182,766 |
| Derivative financial assets | *27* | 29,651 | - | 29,651 | - | 29,651 | - | 29,651 | - |
| Trade receivables | *16* | 21,821,849 | 21,821,849 | - | - | N/A | - | - | - |
| Short-term investments | | | | | | | | | |
| - Time deposits | *18* | 9,240,289 | 9,240,289 | - | - | N/A | - | - | - |
| Cash and bank balances | | | | | | | - | - | - |
| - Cash and bank balances | *19* | 13,153,210 | 13,153,210 | - | - | N/A | | | |
| - Time deposits | *19* | 29,437,610 | 29,437,610 | - | - | N/A | - | - | - |
| Other financial assets (i) | | 1,780,085 | 1,780,085 | - | - | N/A | - | - | - |
| | | 79,621,893 | 78,115,156 | 734,297 | 772,440 | 4,533,432 | - | 4,350,666 | 182,766 |
| *Financial liabilities* | | | | | | | | | |
| Debt | *23* | 46,524,316 | 46,524,316 | - | - | 45,715,403 | - | 45,715,403 | - |
| Finance lease liabilities | *23* | 738,925 | 738,925 | N/A | N/A | N/A | - | - | - |
| Derivative financial liabilities | *27* | 381 | - | 381 | - | 381 | - | 381 | - |
| Trade payables | *25* | 14,969,357 | 14,969,357 | - | - | N/A | - | - | - |
| Other financial liabilities (i) | | 3,357,882 | 3,357,882 | - | - | N/A | - | - | - |
| | | 65,590,861 | 65,590,480 | 381 | - | 45,715,784 | - | 45,715,784 | - |

(i) Other financial assets include lease receivables, loans to related parties and interest receivables. Other financial liabilities include dividend payable, payables to related parties and interest payables.

(ii) 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.

## 14 Financial assets and financial liabilities (continued)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 37. 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 the levels during the year ended 31 December 2019 and 2018.

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.
- Fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted debt instruments, loans from banks and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates for debt with similar terms, credit risk and maturities.
- For the fair value of equity instruments, the Group makes certain assumptions in valuation about the model inputs, including fair value derived based on comparable transactions. The probabilities of the various estimates within a range can be reasonably assessed used in the Group’s estimate of fair value for these unquoted investments in equity instruments. Fair values of quoted investments in equity instruments are derived from quoted prices in active markets.

14 Financial assets and financial liabilities (continued)

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 | • Equity value to EBITDA multiple<br>• Midpoint of net asset value and price to book multiple | 10.9 to 13.5<br>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 |

15 Inventories

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Finished goods | 14,804,387 | 16,613,402 |
| Spare parts | 6,300,920 | 6,259,412 |
| Raw materials | 4,249,678 | 3,760,273 |
| Goods in transit | 1,614,514 | 2,260,171 |
| Work in process | 1,138,499 | 1,067,591 |
| | 28,107,998 | 29,960,849 |
| Less: Provision for slow moving and obsolete items | (1,694,418) | (1,716,046) |
| | 26,413,580 | 28,244,803 |

Movements in the provision for obsolete inventories were as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Balance at 1 January | 1,716,046 | 1,776,274 |
| Reversal for the year, net | (21,628) | (60,228) |
| Balance at 31 December | 1,694,418 | 1,716,046 |

The Group's exposure to commodity price risks is discussed in Note 37.

16 Trade receivables

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade receivables | 16,283,174 | 19,111,571 |
| Due from related parties | 2,366,655 | 3,116,951 |
| | 18,649,829 | 22,228,522 |
| Less: allowance for expected credit losses | (327,277) | (406,673) |
| | 18,322,552 | 21,821,849 |

Accounts receivable are non-interest bearing and are generally between 30 – 120 days terms.

## 16 Trade receivables (continued)

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 |
|---|---|---|---|---|---|---|---|
| 31 December 2019 | | | | | | | |
| Expected credit loss rate | - | 0.06% | 1.32% | 9.16% | 16.85% | 10.71% | 50.49% |
| Gross carrying amount | 18,649,829 | 17,091,871 | 719,828 | 55,134 | 109,513 | 141,833 | 531,650 |
| Expected credit loss | 327,277 | 10,656 | 9,504 | 5,052 | 18,457 | 15,186 | 268,422 |
| 31 December 2018 | | | | | | | |
| Expected credit loss rate | - | 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 | 406,673 | 30,095 | 16,655 | 10,165 | 19,797 | 38,132 | 291,829 |

The expected credit loss rates for the year ended 31 December 2019 have been decreased compared to 2018 as there were less indications that trade receivables are at risk of credit impairment due to potential financial difficulties of customers at the end of the reporting period.

Movements in the allowance for expected credit losses were as follows:

| | For the year 31 December 2019 | For the year 31 December 2018 |
|---|---|---|
| Opening balance | 406,673 | 363,743 |
| Additional allowance for expected credit losses on adoption of IFRS 9 | - | 39,610 |
| As at 1 January | 406,673 | 403,353 |
| Charge for the year | 1,514 | 70,411 |
| Reversals during the year | (80,910) | (67,091) |
| As at 31 December | 327,277 | 406,673 |

## 17 Prepayments and other current assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Receivables from Japan Saudi Arabia Methanol Company, Inc. ("JSMC") (Note 22) | 1,687,500 | - |
| Prepaid expenses | 1,458,879 | 1,897,589 |
| Taxes and subsidies receivable | 872,634 | 1,198,681 |
| Current portion of loan receivable from related parties | 617,372 | 184,760 |
| Finance income receivable | 71,378 | 152,964 |
| Employee advances and receivables | 73,756 | 76,569 |
| Others | 1,572,236 | 1,604,294 |
| | 6,353,755 | 5,114,857 |

## 18 Short-term investments

Short-term investments can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Time deposits | 4,379,820 | 9,240,289 |
| Investments in debt instruments (Note 11) | 1,086,446 | 575,210 |
| Other short-term investments | 92,288 | - |
| | 5,558,554 | 9,815,499 |

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.

Other short-term investments include certificate of deposits.

## 19 Cash and bank balances

Cash and bank balances can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash in hand | 1,085 | 390 |
| Bank balances | 10,018,763 | 13,152,820 |
| Time deposits | 28,292,927 | 29,437,610 |
| | 38,312,775 | 42,590,820 |

At 31 December 2019, the Group had available SR 8.65 billion (31 December 2018: SR 10.06 billion) of undrawn committed borrowing facilities.

At 31 December 2019, the Group has funds amounting to SR 0.60 billion (31 December 2018: SR 0.51 billion) are held in separate bank accounts and are not used as part of normal business operations.

The table below provides details of amounts placed in various currencies:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| SR | 12,268,977 | 15,700,877 |
| USD | 23,417,389 | 25,304,981 |
| Others | 2,626,409 | 1,584,962 |
| | 38,312,775 | 42,590,820 |

### Cash flows related disclosures

Cash and cash equivalents can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash and bank balances | 38,312,775 | 42,590,820 |
| Less: bank overdrafts (in short term borrowings - Note 23) | (1,346,996) | (1,167,589) |
| | 36,965,779 | 41,423,231 |

Bank overdrafts are used in the normal business operations of the Group and represent cash balances that cannot be legally off-set.

19 Cash and bank balances (continued)

19.1 Cash flows related disclosures (continued)

Change in liabilities arising from financing activities can be broken down as follows:

| | As at 1 January 2019 | Charged during the year | Cash flows | Foreign currency exchange and other non-cash | As at 31 December 2019 |
|---|---|---|---|---|---|
| Debt | 46,524,316 | 2,008,900 | (4,273,058) | (1,563,508) | 42,696,650 |
| Lease | 738,925 | 353,152 | (1,721,145) | (i) 7,667,974 | 7,038,906 |
| Dividends to shareholders | 1,215,655 | 13,200,000 | (13,190,127) | - | 1,225,528 |
| Dividends to non-controlling interests | 1,558,027 | 6,859,302 | (8,228,095) | - | 189,234 |
| Acquisition of non-controlling interests | - | (1,125,000) | 1,125,000 | - | - |
| | 50,036,923 | 21,296,354 | (26,287,425) | 6,104,466 | 51,150,318 |

(i) Includes IFRS 16 related additional leases which were recognised at transition and during the year.

| | 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 | 865,013 | 61,025 | (187,113) | - | 738,925 |
| Dividends to shareholders | 1,633,220 | 13,200,000 | (12,059,538) | - | 2,773,682 |
| Dividends to non-controlling interests | - | 8,629,709 | (8,736,246) | 106,537 | - |
| | 59,696,408 | 21,890,734 | (31,676,712) | 126,493 | 50,036,923 |

20 Share capital

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Authorised shares: | | |
| Ordinary shares of SR 10 each | 3,000,000 | 3,000,000 |
| Ordinary shares issued and fully paid of SR 10 each | 3,000,000 | 3,000,000 |
| Issued and paid capital (SR '000) | 30,000,000 | 30,000,000 |

## 21 Reserves

*Statutory reserve*

In accordance with Saudi Arabian Regulations for Companies, SABIC must set aside 10% of its 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. This reserve is not available for distribution.

*General reserve*

In accordance with SABIC's By-Laws, the General Assembly can establish a general reserve as an appropriation of retained earnings. This general reserve can be increased or decreased by a resolution of the shareholders and is available for distribution.

*Other reserves*

The following table shows a breakdown of other reserves and the movements during the year:

| 31 December 2019 | Equity instruments | Foreign currency translation | Actuarial gain (loss) | Cash flow hedge | Total |
|---|---|---|---|---|---|
| At the beginning of the year | 423,136 | (2,699,916) | 953,122 | (35,526) | (1,359,184) |
| Net change on currency translation of foreign operations | - | (328,231) | - | - | (328,231) |
| Re-measurement impact of employee benefit obligations (i) | - | - | (1,414,662) | - | (1,414,662) |
| Re-measurement impact of investments in equity instruments | (137,060) | - | - | - | (137,060) |
| Share of other comprehensive income (loss) for associates and joint ventures | - | (13,317) | (30,764) | 18,134 | (25,947) |
| Other comprehensive income (loss) for the year | (137,060) | (341,548) | (1,445,426) | 18,134 | (1,905,900) |
| At the end of the year | 286,076 | (3,041,464) | (492,304) | (17,392) | (3,265,084) |

(i) Amount is net of tax and includes amounts recognised by the acquisition of non-controlling interests (Note 22).

21 Reserves (continued)

*Other reserves (continued)*

| 31 December 2018 | Equity instruments | Foreign currency translation | Actuarial gain (loss) | Cash flow hedge | Total |
|---|---|---|---|---|---|
| At the beginning of the year | 28,956 | (1,430,422) | (792,486) | (55,711) | (2,249,663) |
| Adoption of IFRS 9 | 389,300 | (275) | - | - | 389,025 |
| At 1 January 2018 | 418,256 | (1,430,697) | (792,486) | (55,711) | (1,860,638) |
| 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 | 4,880 | - | - | - | 4,880 |
| Share of other comprehensive income for associates and joint ventures | - | 31,996 | 1,596 | 20,185 | 53,777 |
| Other comprehensive income (loss) for the year | 4,880 | (1,269,219) | 1,745,608 | 20,185 | 501,454 |
| At the end of the year | 423,136 | (2,699,916) | 953,122 | (35,526) | (1,359,184) |

## 22 Non-controlling interests

### Summarised statement of financial position

Set out below is summarised financial information for each subsidiary that has a non-controlling interest that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations:

| | As at 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | YANSAB | AR-RAZI (Note 22.1) | YANPET | SHARQ | KEMYA | IBN RUSHD | SAFCO | KAYAN |
| Current assets | 5,842,703 | 1,594,284 | 4,382,164 | 4,622,300 | 3,248,122 | 1,996,387 | 2,167,998 | 5,381,729 |
| Current liabilities | 1,152,758 | 402,394 | 1,604,462 | 1,107,106 | 2,087,568 | 1,278,969 | 681,385 | 2,886,750 |
| *Current net assets* | 4,689,945 | 1,191,890 | 2,777,702 | 3,515,194 | 1,160,554 | 717,418 | 1,486,613 | 2,494,979 |
| Non-current assets | 12,227,704 | 2,886,709 | 4,680,504 | 13,283,302 | 12,617,680 | 1,365,461 | 7,494,544 | 29,946,066 |
| Non-current liabilities | 774,837 | 851,411 | 1,177,227 | 2,683,024 | 3,985,429 | 3,600,132 | 984,866 | 17,488,180 |
| *Non-current net assets* | 11,452,867 | 2,035,298 | 3,503,277 | 10,600,278 | 8,632,251 | (2,234,671) | 6,509,678 | 12,457,886 |
| *Net assets* | 16,142,812 | 3,227,188 | 6,280,979 | 14,115,472 | 9,792,805 | (1,517,253) | 7,996,291 | 14,952,865 |
| Accumulated non-controlling interests (i) | 7,756,621 | 806,797 | 3,140,493 | 7,057,736 | 4,896,403 | (729,344) | 4,558,685 | 9,719,362 |

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

22 Non-controlling interests (continued)

Summarised statement of financial position (continued)

| | 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 |
| *Current net assets* | 4,883,660 | 490,539 | 3,447,073 | 6,483,922 | 1,552,343 | 1,181,222 | 1,394,717 | 5,877,978 |
| Non-current assets | 12,844,534 | 2,818,632 | 4,415,143 | 13,867,515 | 13,129,797 | 4,074,091 | 7,254,486 | 31,521,004 |
| Non-current liabilities | 472,499 | 775,785 | 847,336 | 2,439,668 | 4,701,917 | 3,752,541 | 743,154 | 21,700,622 |
| *Non-current net assets* | 12,372,035 | 2,042,847 | 3,567,807 | 11,427,847 | 8,427,880 | 321,550 | 6,511,332 | 9,820,382 |
| *Net assets* | 17,255,695 | 2,533,386 | 7,014,880 | 17,911,769 | 9,980,223 | 1,502,772 | 7,906,049 | 15,698,360 |
| Accumulated non-controlling interests (i) | 8,143,373 | 1,109,028 | 3,392,926 | 8,596,724 | 4,852,558 | 712,967 | 4,183,245 | 9,620,400 |

(i) Accumulated non-controlling interests includes adjustments such as inter-group profit elimination, absorption of income tax in non-controlling interests and others.

## 22 Non-controlling interests (continued)

### Summarised statement of comprehensive income

| | YANSAB | AR-RAZI (Note 22.1) | YANPET | SHARQ | KEMYA | IBN RUSHD | SAFCO | KAYAN |
|---|---|---|---|---|---|---|---|---|
| | For the year ended 31 December 2019 | | | | | | | |
| Revenue | 6,064,834 | 3,430,439 | 6,209,514 | 7,877,799 | 7,244,650 | 4,308,183 | 3,287,582 | 9,536,400 |
| *Net income (loss) for the year* | 1,089,772 | 1,539,551 | 1,752,780 | 464,021 | 654,656 | (2,981,429) | 1,473,919 | (636,777) |
| Other comprehensive income | (93,280) | (48,686) | (102,420) | (90,217) | (80,366) | (38,596) | (133,677) | (108,718) |
| *Total comprehensive income (loss)* | 996,492 | 1,490,865 | 1,650,360 | 373,804 | 574,290 | (3,020,025) | 1,340,242 | (745,495) |
| Net income (loss) attributable to non-controlling interests (i) | 523,635 | 384,888 | 808,257 | 217,744 | 297,063 | (1,433,173) | 840,281 | (413,905) |
| Dividends to non-controlling interests | 1,013,555 | 301,759 | 1,360,172 | 1,975,000 | 335,082 | - | 712,625 | - |
| | For the year ended 31 December 2018 | | | | | | | |
| 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 |
| *Net income for the year* | 2,413,978 | 3,045,453 | 2,944,221 | 2,859,182 | 1,965,479 | 130,862 | 1,738,438 | 1,702,248 |
| Other comprehensive income | 73,037 | 55,640 | 124,006 | 93,484 | 67,696 | 53,508 | 140,320 | 88,645 |
| *Total comprehensive income* | 2,487,015 | 3,101,093 | 3,068,227 | 2,952,666 | 2,033,175 | 184,370 | 1,878,758 | 1,790,893 |
| Net income attributable to non-controlling interests (i) | 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 | - |

(i) 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.

## 22 Non-controlling interests (continued)

### Summarised statement of cash flows

| | YANSAB | AR-RAZI | YANPET | SHARQ | KEMYA | IBN RUSHD | SAFCO | KAYAN |
|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December 2019 | | | | | | | |
| Cash flow from operating activities | 2,552,493 | 1,536,142 | 3,248,227 | 2,378,739 | 2,056,346 | 470,406 | 1,785,111 | 2,198,395 |
| Cash flow (used in) from investing activities | (317,615) | (501,922) | (575,949) | (469,869) | (141,038) | (185,148) | (409,524) | 1,317,477 |
| Cash flow used in financing activities | (2,124,808) | (2,937,401) | (3,101,884) | (4,144,384) | (1,930,618) | (182,132) | (1,314,538) | (4,979,746) |
| Net increase (decrease) in cash and cash equivalents | 110,070 | (1,903,181) | (429,606) | (2,235,514) | (15,310) | 103,126 | 61,049 | (1,463,874) |
| | Year ended 31 December 2018 | | | | | | | |
| 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 used in investing activities | (1,857,714) | (294,522) | (547,071) | (408,623) | (310,722) | (86) | (802,588) | (2,115,782) |
| Cash flow used in 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) |

## 22 Non-controlling interests (continued)

### 22.1 Increase of shareholding in a subsidiary

During 2019, SABIC and Japan Saudi Arabia Methanol Company, Inc. ("JSMC"), the partner in Saudi Methanol Company ("Ar-Razi") entered into an agreement, whereby SABIC agreed to acquire an additional 25% of shares in Ar-Razi from JSMC to 75% and renew the Joint Venture Agreement ("JVA") for 20 years. At the end of June 2019, all required regulatory approvals were obtained to complete this transaction.

SABIC and JSMC agreed that SABIC will receive a net consideration of SR 4.50 billion from JSMC in three instalments. The first instalment amounting to SR 1.13 billion (USD 0.30 billion) has been received on 25 June 2019, after offsetting a consideration of SR 0.56 billion (USD 0.15 billion) for the acquisition of additional 25% shares of Ar-Razi. The remaining two instalments of SR 1.69 billion (USD 0.45 billion) each, will be due on 31 March 2020 and 2021, respectively. The current instalment of receivable has been recorded as part of prepayments and other current assets and the final discounted instalment has been recorded as part of other non-current assets. The final instalment has been discounted at 4% per annum.

Considering this transaction is related to the acquisition of an additional ownership interest in a subsidiary without a change of control, accordingly, it has been accounted for as an equity transaction and excess consideration over the carrying amount of the non-controlling interests is recognised in equity attributable to the Parent. The Group has elected to recognise this effect in retained earnings. With respect to the subsidiary to which these non-controlling interests relate, there were accumulated components recognised in OCI amounting to SR 15 million which has been reallocated within equity of the Parent.

As part of the transaction, SABIC obtains an obligation to acquire the remaining shares of Ar-Razi from JSMC at the end of the twentieth year. As a result, the non-controlling interests attributable to JSMC is reclassified to non-current liabilities at each reporting date as management's best estimate for the net present value of the settlement price payable at the end of the agreement.

The accounting impact of the transaction can be summarised as follows:

| | |
|---|---|
| Consideration from JSMC | 5,062,500 |
| Less: acquisition of 25% shares in Ar-Razi | (562,500) |
| Net consideration | 4,500,000 |
| Discounting of third instalment | (112,500) |
| Net consideration after discounting at 4% per annum | 4,387,500 |
| Add: carrying value of the additional shares in Ar-Razi | 847,811 |
| Less: transfer of other comprehensive income | (15,154) |
| Excess recognised in retained earnings | 5,220,157 |

## 23 Debt

Total debt can be broken down as follows:

| | Interest rate | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| *Current* | | | |
| Short-term bank borrowings | USD LIBOR variable rate | 1,346,996 | 1,167,589 |
| Current portion of long-term debt | SAIBOR and USD LIBOR | 3,746,233 | 3,664,754 |
| Euro bonds | 2.75% | 3,143,059 | - |
| | | 6,889,292 | 3,664,754 |
| Lease liabilities | 4.04% (average) | 1,271,843 | - |
| Finance lease liabilities | 5.7% to 9.6% | - | 85,502 |
| | | 1,271,843 | 85,502 |
| | | 8,161,135 | 3,750,256 |
| *Non-current* | | | |
| Long-term debt | SAIBOR and USD LIBOR | 27,022,454 | 31,058,023 |
| USD bonds | 4.0% to 4.5% | 7,437,908 | 10,633,950 |
| | | 34,460,362 | 41,691,973 |
| Lease liabilities | 3.0%-5.0% (IBR-average) | 5,767,063 | - |
| Finance lease liabilities | 5.7% to 9.6% | - | 653,423 |
| | | 5,767,063 | 653,423 |
| | | 40,227,425 | 42,345,396 |
| | | 49,735,556 | 47,263,241 |

Long-term debt

The Group obtained commercial loans from various financial institutions in order to finance its growth 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 various rates.

Bonds

The following bonds were outstanding as of 31 December 2019:

- 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 4.0% 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 1933, as amended. The bonds are listed on the Irish Stock Exchange (Euronext Dublin) and the proceeds were used for refinancing 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. The bond matures in November 2020.

## 23 Debt (continued)

The aggregate repayment schedule of long-term debt is as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Within one year | 8,236,288 | 4,832,343 |
| 1-2 years | 5,172,232 | 7,388,859 |
| 2-5 years | 18,061,631 | 25,510,327 |
| Thereafter | 11,226,499 | 8,792,787 |
| Lease obligation | 7,038,906 | 738,925 |
| Total | 49,735,556 | 47,263,241 |

During 2019, certain group subsidiaries underwent a refinancing of the term loans and this has been reflected in the above loan maturity table.

The maturity of the lease obligation and debt are further elaborated in liquidity risk (Note 37).

## 24 Employee benefits

The provision for employee benefits can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Defined benefit obligations** | | |
| End of service benefits | 13,024,992 | 10,598,972 |
| Defined benefits pension schemes | 2,500,834 | 2,226,295 |
| Post-retirement medical benefits | 1,345,462 | 1,154,575 |
| | 16,871,288 | 13,979,842 |
| **Other long term employee benefits and termination benefits** | | |
| Long-term service awards | 149,305 | 125,340 |
| Early retirement plans | 32,150 | 37,311 |
| Others | 996,105 | 857,532 |
| | 1,177,560 | 1,020,183 |
| | 18,048,848 | 15,000,025 |

Management monitors the risks of all its pension plans and issues guidelines regarding the governance and risk management of these pension plans, particularly with regard to the funding of the pension plans and the portfolio structure of the existing plan assets. The obligations and 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. Some plans with defined benefits were closed 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 KSA, the Group limits the risks of changing financial market conditions and demographic developments by offering a defined contribution scheme to new-hires in most countries. The defined benefit plans in US and Canadian plan were therefore 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 applying an appropriate discount rate is used 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.

## 24 Employee benefits (continued)

### Defined benefits obligation (continued)

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 employee compensation.

The funding of the plans is consistent with local law and regulations in the countries of establishment. Generally, pension obligations are subject to a government regulation, including minimum funding requirements. Furthermore, there are restrictions in qualitative and quantitative terms for the investment in different asset categories. This could result in fluctuating employer contributions, additional financing requirements and the assumption of obligations in favour of the pension fund to comply with these 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 has a number of qualified legacy defined benefit pension plans. These plans are 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 the USA. The group also has a supplementary non-qualified pension plan.

As of 1 January 2020, all accrual in the US plans are frozen. Going forward, employees participate in alternative defined contribution arrangements. The effect of this freeze in benefit accrual was recognised in the 2019 financial statements.

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*

In the UK, the Group maintained final salary pension plans that have been closed to further increases in benefits for future years of service. A part of the UK workforce still accrue pension benefits due to salary increases. Since the closure of service accrual, all employees have had the opportunity to participate in a defined contribution plan.

The defined benefit pension plans are administered by trusts, whose Boards of Trustees, according to the trustees' agreement and law, represent the interests of the beneficiaries to ensure 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.

24 Employee benefits (continued)

## Other long-term employee benefits

Early retirement plans

Employee early retirement plan costs are provided for in accordance with the Group's employee benefit 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 to its employees 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 2019 | For the year ended 31 December 2018 |
|---|---|---|
| At the beginning of the year | 13,950,335 | 16,551,957 |
| Current service cost | 1,114,016 | 1,489,315 |
| Past service cost | (11,979) | (283,821) |
| Finance cost, net of finance income | 563,399 | 557,467 |
| Actuarial changes arising due to: | | |
| - financial assumptions | 2,494,657 | (1,863,573) |
| - demographic changes | (41,449) | (101,639) |
| - experience adjustments | (259,333) | (404,933) |
| - actual return on plan assets | (408,521) | 222,252 |
| | 1,785,354 | (2,147,893) |
| Benefits paid during the year | (439,876) | (1,980,715) |
| Contributions into pension plans | (223,260) | (308,526) |
| Foreign currency translation adjustment and others | 87,963 | 72,551 |
| | 16,825,952 | 13,950,335 |
| Reclassification to net pension asset (*) | 45,336 | 29,507 |
| At the end of the year | 16,871,288 | 13,979,842 |

*Net pension assets are presented under non-current assets.

24 Employee benefits (continued)

Following table represents the components of the employee benefits in the KSA:

| | For the year ended 31 December 2019 | | |
|---|---|---|---|
| | End of service | Post-retirement medical | Total |
| At the beginning of the year | 10,598,972 | 827,260 | 11,426,232 |
| Current service cost | 889,037 | 46,119 | 935,156 |
| Finance cost | 446,913 | 34,221 | 481,134 |
| Actuarial changes arising due to: | | | |
| - financial assumptions | 1,478,288 | 150,859 | 1,629,147 |
| - experience adjustments | (91,817) | (33,569) | (125,386) |
| | 1,386,471 | 117,290 | 1,503,761 |
| Benefits paid during the year | (322,836) | (84,957) | (407,793) |
| Others | 20,639 | 71,554 | 92,193 |
| At the end of the year | 13,019,196 | 1,011,487 | 14,030,683 |

| | 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) |
| Benefits paid 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 |

24 Employee benefits (continued)

Following table represents the components of the DBO outside KSA at 31 December 2019:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | USA | UK | Others | Total |
| At the beginning of the year | 2,767,092 | 2,516,104 | 881,940 | 6,165,136 |
| Current service costs | 158,465 | - | 20,395 | 178,860 |
| Past service costs | (12,931) | 952 | - | (11,979) |
| Finance costs | 111,764 | 71,761 | 21,388 | 204,913 |
| Benefits paid during the year | (183,779) | (80,398) | (30,408) | (294,585) |
| Actuarial changes arising due to: | | | | |
| - financial assumptions | 526,517 | 237,644 | 101,349 | 865,510 |
| - demographic changes | (4,080) | (38,081) | 712 | (41,449) |
| - experience adjustments | 48,510 | (168,635) | (13,822) | (133,947) |
| | 570,947 | 30,928 | 88,239 | 690,114 |
| Foreign currency and others | - | 84,284 | (26,622) | 57,662 |
| | 3,411,558 | 2,623,631 | 954,932 | 6,990,121 |
| Reclassification as net pension asset | - | - | (229,732) | (229,732) |
| At the end of the year | 3,411,558 | 2,623,631 | 725,200 | 6,760,389 |

The development of plan assets for these major plans in the different regions can be shown as follows:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | USA | UK | Others | Total |
| Plan assets as at start of the year | 1,478,865 | 1,911,873 | 250,295 | 3,641,033 |
| Interest income | 59,538 | 54,117 | 8,993 | 122,648 |
| Employers' contribution | 162,476 | 38,296 | 22,488 | 223,260 |
| Return on plan assets (excluding interest income) | 201,490 | 171,649 | 35,382 | 408,521 |
| Benefits paid during the year | (152,771) | (80,398) | (29,333) | (262,502) |
| Administrative expenses | (13,408) | - | (415) | (13,823) |
| Foreign currency and others | - | 66,382 | 9,333 | 75,715 |
| Plan assets as at end of the year | 1,736,190 | 2,161,919 | 296,743 | 4,194,852 |
| Reclassification as net pension assets | - | - | (275,068) | (275,068) |
| Plan assets at end of the year | 1,736,190 | 2,161,919 | 21,675 | 3,919,784 |
| Defined benefit obligation, net | 1,675,368 | 461,712 | 703,525 | 2,840,605 |

24 Employee benefits (continued)

Following table represents the components of the DBO outside the 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 during the year | (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 |

The development of plan assets for major plans in the different regions can be shown as follows:

| | 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 during the year | (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 |

24 Employee benefits (continued)

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| *Net benefit expense* | | |
| Current service cost and past service cost | 1,102,037 | 1,205,494 |
| Finance cost on benefit obligation | 563,399 | 557,467 |
| Net benefit expense | 1,665,436 | 1,762,961 |

Employee pension plan assets:

The following table represents the categories of plan assets for the major pension plans outside KSA:

| | For the year ended 31 December 2019 | | |
|---|---|---|---|
| | USA | UK | Others |
| *Quoted and unquoted* | | | |
| Equity | 39.59% | 32.88% | - |
| Debt securities | 29.71% | 1.19% | 92.29% |
| - Government debtors | - | - | *92.29%* |
| - Other debtors | *29.71%* | *1.19%* | - |
| Investment funds and insurance companies | - | 46.76% | 6.64% |
| Other investments | 28.30% | 15.53% | 1.07% |
| Cash and cash equivalents | 2.40% | 3.64% | - |
| Total | 100.00% | 100.00% | 100.00% |

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| | USA | UK | Others |
| *Quoted and unquoted* | | | |
| Equity | 36.90% | 33.54% | 37.02% |
| Debt securities | 29.27% | 1.09% | 60.17% |
| - Government debtors | - | *1.09%* | *60.17%* |
| - Other debtors | *29.27%* | - | - |
| Investment funds and insurance companies | - | 46.56% | 1.58% |
| Other investments | 31.14% | 18.26% | 1.23% |
| Cash and cash equivalents | 2.69% | 0.55% | - |
| Total | 100.00% | 100.00% | 100.00% |

24 Employee benefits (continued)

The major economic and actuarial assumptions used in benefits liabilities computation can be shown as follows:

| | 31 December 2019 | | |
|---|---|---|---|
| | KSA | USA | UK |
| Discount rate | 3.10% | 3.12% | 2.10% |
| Average salary increase | 5.50% - 7.00% | - | 2.91% |
| Pension in payment increase | N/A | N/A | 2.90% |
| Inflation rate (health care cost) | 9% in 2020 Dec. to 5% for 2024+ | N/A | N/A |

| | 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% |
| Inflation rate (health care cost) | 9% in 2019 decrease to 5% for 2023+ | 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. These 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 consolidated 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 2019 | | | |
|---|---|---|---|---|
| | KSA | USA | UK | Others |
| *Increase* | | | | |
| Discount rate (+25 bps) | (380,757) | (139,156) | (129,863) | (27,822) |
| Salary (+25 bps) | 357,126 | - | 17,504 | 19,887 |
| Pension (+25 bps) | N/A | - | 105,204 | 31,230 |
| Longevity (+1 year) | N/A | 55,302 | 85,345 | (5,969) |
| Health care costs (+25 bps) | 30,808 | N/A | N/A | N/A |
| *Decrease* | | | | |
| Discount rate (-25 bps) | 397,222 | 147,770 | 139,310 | 51,900 |
| Salary (-25 bps) | (344,607) | - | (17,160) | 2,429 |
| Pension (-25 bps) | N/A | - | (99,449) | (7,910) |
| Longevity (-1 year) | N/A | (56,645) | (84,488) | 27,987 |
| Health care costs (-25 bps) | (29,376) | N/A | N/A | N/A |

## 24 Employee benefits (continued)

### Sensitivity analysis (continued)

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | KSA | USA | UK | Others |
| *Increase* | | | | |
| 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) | N/A | - | 94,662 | 17,641 |
| Longevity (+1 year) | N/A | 38,245 | 71,718 | (14,807) |
| Health care costs (+25 bps) | 23,010 | N/A | N/A | N/A |
| *Decrease* | | | | |
| 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) | N/A | - | (89.594) | (16,685) |
| Longevity (-1 year) | N/A | (39,562) | (71,355) | 14,511 |
| Health care costs (-25 bps) | (21,991) | N/A | N/A | N/A |

Expected total benefit payments can be broken down as follows:

| | 31 December 2019 | |
|---|---|---|
| | KSA | Outside KSA |
| Within one year | 639,390 | 260,473 |
| 1 – 2 years | 662,975 | 266,897 |
| 2 – 3 years | 772,542 | 275,034 |
| 3 – 4 years | 832,338 | 290,616 |
| 4 – 5 years | 895,735 | 296,053 |
| Next 5 years | 5,556,889 | 1,517,999 |
| Total | 9,359,869 | 2,907,072 |

| | 31 December 2018 | |
|---|---|---|
| | KSA | Outside KSA |
| Within one year | 591,513 | 317,973 |
| 1 – 2 years | 585,755 | 339,374 |
| 2 – 3 years | 644,072 | 352,686 |
| 3 – 4 years | 737,023 | 370,104 |
| 4 – 5 years | 810,999 | 387,863 |
| Next 5 years | 5,229,918 | 2,067,327 |
| Total | 8,599,280 | 3,835,327 |

Annual premiums paid to defined contribution schemes amount to SR 0.38 billion (2018: SR 0.39 billion) and relate primarily to defined contribution pension schemes.

The expected employer contributions related to the defined benefit pension plans for 2020 amount to SR 0.21 billion (2018: SR 0.15 billion).

The weighted average duration of the defined benefit obligation is 11 years for KSA plans, 18 years for plans outside KSA (31 December 2018: 10 years for KSA plans, 20 years for plans outside KSA).

## 25 Trade payables

Trade payables can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade accounts payable | **12,865,317** | 14,938,392 |
| Amounts due to related parties | **22,858** | 30,965 |
| | **12,888,175** | 14,969,357 |

The Group's exposure to currency and liquidity risk related to accounts payables is disclosed in Note 37.

## 26 Accruals and other current liabilities

Accruals and other current liabilities can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Accrued liabilities | **6,695,100** | 6,250,270 |
| Employees related liabilities | **1,841,134** | 2,461,530 |
| Dividends payable | **1,414,762** | 2,773,682 |
| Sales and other tax payables | **364,716** | 855,243 |
| Interest payable | **125,301** | 201,432 |
| Contract retentions | **97,863** | 112,201 |
| Others | **1,030,538** | 742,114 |
| | **11,569,414** | 13,396,472 |

## 27 Derivatives

Derivatives can be broken down as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Derivative asset:* | | |
| *Non designated hedging relationship* | | |
| - Foreign exchange forward contracts | - | 29,651 |
| Notional amount | - | 615,342 |

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Derivative liability:* | | |
| *Non designated hedging relationship* | | |
| - Foreign exchange forward contracts | - | 381 |
| Notional amount | - | 291,967 |

## 28 Revenue

Revenue can be broken down as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Sales of goods | 135,583,899 | 164,896,782 |
| Logistic services | 3,467,061 | 3,518,301 |
| Rendering of services | 686,424 | 713,256 |
| | 139,737,384 | 169,128,339 |

There is no significant revenue that has been recognised in 2019 from performance obligations satisfied in previous years. All unfulfilled remaining performance obligations as at 31 December 2019 are expected to be satisfied in the following year.

Refer to Note 36 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.

## 29 Expenses

Based on the nature of expense, cost of sales, selling and distribution expenses and general and administrative expenses can be broken down as follows:

### 29.1 Cost of sales

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Changes in inventories of finished products, raw materials and consumables used | 76,060,015 | 83,389,610 |
| Depreciation and amortisation | 15,146,930 | 14,132,925 |
| Employee related costs | 9,394,793 | 13,294,298 |
| Impairments and write-offs of plant and equipment and intangible assets | 3,615,453 | 470,183 |
| | 104,217,191 | 111,287,016 |

## 29 Expenses (continued)

### 29.2 General and administrative expenses

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Employee related expenses | 4,439,123 | 4,997,965 |
| Professional and other consultant services | 1,840,802 | 1,834,609 |
| Research and technology cost | 1,625,762 | 1,825,235 |
| Depreciation and amortisation | 1,444,128 | 941,236 |
| Maintenance | 621,808 | 656,025 |
| Administrative support | 252,161 | 514,064 |
| Others | 453,404 | 391,884 |
| | 10,677,188 | 11,161,018 |

### 29.3 Selling and distribution expenses

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Transportation and shipping | 7,880,148 | 7,995,009 |
| Employee related expenses | 1,692,436 | 1,578,477 |
| Rental and lease expenses | - | 389,374 |
| Marketing expenses | 297,937 | 153,468 |
| Depreciation and amortisation | 118,607 | 61,920 |
| Others | 20,870 | 221,689 |
| | 10,009,998 | 10,399,937 |

## 30 Finance cost

Finance cost can be broken down as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Interest expense on loans and borrowings | 1,633,522 | 2,027,623 |
| Interest expense on lease liabilities (Note 38) | 353,152 | 61,025 |
| Interest expenses related to defined benefit plans (Note 24) | 563,399 | 557,467 |
| | 2,550,073 | 2,646,115 |

## 31 Other expenses, net

Other expenses, net can be broken down as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Dividend from investments in equity instruments | 81,260 | 61,631 |
| Insurance claims | 258,035 | 147,216 |
| Foreign currency exchange differences | (82,588) | (193,489) |
| Rental income | 59,238 | 39,010 |
| Loss on disposal of property, plant and equipment | (110,808) | (179,700) |
| Write-offs of property, plant and equipment | (260,220) | - |
| Others | (73,313) | (298,423) |
| | (128,396) | (423,755) |

## 32 Zakat and income tax

The movement in Group's zakat and income tax payable can be shown as follows:

| | For the year ended 31 December 2019 | | |
|---|---|---|---|
| | Zakat | Income Tax | Total |
| At the beginning of the year | 2,843,143 | 1,753,696 | 4,596,839 |
| Provided during the year | 2,100,000 | 1,029,599 | 3,129,599 |
| Paid during the year, net | (2,457,461) | (1,752,463) | (4,209,924) |
| Other movements (foreign currency translations and reclassification) | (3,063) | (31,935) | (34,998) |
| At the end of the year | 2,482,619 | 998,897 | 3,481,516 |

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| | Zakat | Income Tax | Total |
| At the beginning of the year | 2,619,140 | 1,921,891 | 4,541,031 |
| 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 | - | (39,611) | (39,611) |
| At the end of the year | 2,843,143 | 1,753,696 | 4,596,839 |

The movement in Group's deferred tax is as follows:

| | For the year ended 31 December 2019 | | For the year ended 31 December 2018 | |
|---|---|---|---|---|
| | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| At the beginning of the year | 865,156 | 1,664,138 | 1,518,599 | 2,597,059 |
| Changes during the year (i) | (153,547) | (51,389) | (653,443) | (932,921) |
| At the end of the year | 711,609 | 1,612,749 | 865,156 | 1,664,138 |

(i) Includes impact of foreign exchanges translation and non-controlling interests

## 32 Zakat and income tax (continued)

### 32.1 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 up to the year ended 31 December 2018. SABIC cleared its zakat assessments with GAZT up to the year ended 31 December 2016.

### 32.2 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 2019 | For the year ended 31 December 2018 |
|---|---|---|
| *Current corporate income tax* | | |
| Current year | 1,005,530 | 1,503,406 |
| Adjustments in respect of current income tax of previous year | 24,069 | - |
| *Deferred corporate income tax* | | |
| Origination and reversals of temporary differences | 89,871 | (305,745) |
| | 1,119,470 | 1,197,661 |

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| *Deferred tax related to items recognised in OCI during in the year* | | |
| - Deferred tax expense on re-measurement of defined benefit plans | 10,401 | 5,204 |
| Deferred tax charged to OCI | 10,401 | 5,204 |

## 32 Zakat and income tax (continued)

### 32.2 Income Tax (continued)

The numerical reconciliation of income tax expense derived from the accounting profit is presented in the table below:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Income before zakat and income tax | 11,682,306 | 35,683,068 |
| Exclude: income subject to Zakat | (13,029,017) | (27,830,507) |
| Income subject to income tax | (1,346,711) | 7,852,561 |
| | | |
| Domestic income tax rate (KSA) | 20% | 20% |
| Income tax at domestic tax rate | (269,342) | 1,570,512 |
| Tax effects of | | |
| - Current year tax benefits not recognised | 932,306 | 315,213 |
| - Foreign currency translation results | (84,428) | (405,308) |
| - Deviating rates | (90,871) | (26,800) |
| - Tax rate changes | 22,872 | (94,415) |
| - Tax charge due to other liabilities | (22,836) | 183,229 |
| - Return-to-provision true-ups and exempt items | (11,358) | (566,923) |
| - Non-tax deductible expenses | 100,457 | 198,135 |
| - Result on associates and joint ventures | 390,309 | - |
| - Recognition of previously unrecognised tax benefits | - | (81,560) |
| - Deferred tax on outside basis | 35,760 | 27,473 |
| - State, local and other taxes | 116,601 | 78,105 |
| Income tax expense | 1,119,470 | 1,197,661 |
| Zakat expense | 2,100,000 | 2,600,000 |
| Total income tax and zakat expense | 3,219,470 | 3,797,661 |

32 Zakat and income tax (continued)

32.2 Income Tax (continued)

Components of deferred tax are as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Difference in accounting and tax base related to:* | | |
| - Property, plant and equipment and intangible assets | (3,155,471) | (3,466,676) |
| - Inventories | (16,317) | (29,120) |
| - Right of use assets | (509,850) | - |
| - Outside basis differences | (219,750) | (170,083) |
| - Others | (29,588) | (58,584) |
| Deferred tax liabilities | (3,930,976) | (3,724,463) |
| Set-off with deferred tax assets | 2,318,227 | 2,060,325 |
| Net deferred tax liabilities | (1,612,749) | (1,664,138) |
| | | |
| Net operating losses | 7,522,557 | 7,279,239 |
| *Difference in accounting and tax base related to:* | | |
| - Property, plant and equipment and intangible assets | 137,890 | 445,332 |
| - Employee benefits | 619,862 | 583,956 |
| - Lease liabilities | 516,654 | - |
| - Deferred charges | 203,957 | 10,912 |
| - Provisions on receivables and inventories | 236,716 | 355,480 |
| - Interest carry-forward | 291,402 | 9,884 |
| - Tax credits | 136,882 | 145,754 |
| - Others | 223,033 | 66,687 |
| Deferred tax assets | 9,888,953 | 8,897,244 |
| Un-recognised deferred tax assets | (6,859,117) | (5,971,763) |
| Set-off with deferred tax liabilities | (2,318,227) | (2,060,325) |
| Net deferred tax assets | 711,609 | 865,156 |

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 30.07 billion (2018: SR 27.74 billion) with carry-forward periods ranging from 2022 to indefinite, which are available for offsetting against future taxable profits of the companies in which the losses arose.

## 33 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 for the year 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.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Income from operations (SR '000) | 14,833,007 | 36,280,368 |
| Net income attributable to equity holders of the Parent (SR '000) | 5,563,271 | 21,520,678 |
| Weighted average number of ordinary shares ('000) | 3,000,000 | 3,000,000 |
| Earnings per share from income from operations (SR) | 4.94 | 12.09 |
| Earnings per share from net income attributable to equity holders of the Parent (SR) | 1.85 | 7.17 |

There has been no item of dilution affecting the weighted average number of ordinary shares.

## 34 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 2019 | 31 December 2018 |
|---|---|---|
| *Cash and bank balances* | | |
| - Conventional call (excluding fixed term deposits) | 9,086,727 | 11,221,338 |
| - Conventional time deposits | 5,627,918 | 3,556,550 |
| Conventional cash and bank balances | 14,714,645 | 14,777,888 |
| | | |
| - Murabaha (including fixed term deposits) | 22,665,009 | 25,881,062 |
| - Current accounts (excluding fixed term deposits) | 933,121 | 1,931,870 |
| Non-conventional cash and bank balances | 23,598,130 | 27,812,932 |
| Total cash and bank balances | 38,312,775 | 42,590,820 |
| | | |
| *Short-term and investments in debt instruments* | | |
| - Conventional time deposits | 690,871 | 478,075 |
| - Bonds and floating rate notes | 450,835 | 556,151 |
| - Other investments | 92,288 | - |
| Conventional short-term and investments in debt instruments | 1,233,994 | 1,034,226 |
| | | |
| - Murabaha (including fixed time deposits) | 3,688,949 | 8,762,214 |
| - SUKUK | 1,344,629 | 1,861,143 |
| - Murabaha structured deposits | 636,574 | 651,796 |
| Non-conventional short-term and investments in debt instruments | 5,670,152 | 11,275,153 |
| Total short-term and investments in debt instruments | 6,904,146 | 12,309,379 |
| | | |
| *Investments in equity instruments* | | |
| - Mutual funds | 313,141 | 305,294 |
| - Equity investments | 732,868 | 784,815 |
| Conventional investments in equity instruments | 1,046,009 | 1,090,109 |
| Total investments in equity instruments | 1,046,009 | 1,090,109 |

34 Conventional and non-conventional financing and investments (continued)

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Short-term borrowings* | | |
| - Conventional short-term borrowings | 1,346,996 | 1,167,589 |
| Total short-term borrowings | 1,346,996 | 1,167,589 |
| | | |
| *Long and short-term debt* | | |
| - Conventional loans | 11,106,601 | 11,796,848 |
| - Bonds/notes | 10,580,967 | 10,633,950 |
| - Lease liabilities | 7,038,906 | 738,925 |
| Conventional long-term debt | 28,726,474 | 23,169,723 |
| | | |
| - Murabaha | 13,892,718 | 16,486,010 |
| - SIDF | 1,367,422 | 1,678,192 |
| - Ijarah facilities and others | 4,401,946 | 4,761,727 |
| Non-conventional long-term debt | 19,662,086 | 22,925,929 |
| Total long-term debt | 48,388,560 | 46,095,652 |
| Total debt | 49,735,556 | 47,263,241 |

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| *Borrowing cost capitalised during the year:* | | |
| - Conventional loans | - | 23,568 |
| Borrowing costs capitalised from conventional loans | - | 23,568 |
| | | |
| - Murabaha loans and SIDF | 3,026 | 15,151 |
| Borrowing costs capitalised from non-conventional loans | 3,026 | 15,151 |
| Total borrowing cost capitalised during the year | 3,026 | 38,719 |

34 Conventional and non-conventional financing and investments (continued)

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| *Finance income* | | |
| - Conventional call account | 2,452 | 3,555 |
| - Conventional time deposits | 240,662 | 187,680 |
| - Conventional structured deposits | 5,415 | 28,513 |
| - Derivatives | 9,521 | (11,577) |
| - Others | 2,487 | 76,484 |
| Total conventional finance income | 260,537 | 284,655 |
| | | |
| - Current Murabaha (including fixed term deposits) | 757,908 | 1,035,951 |
| - SUKUK | 79,167 | 82,571 |
| - Murabaha structured deposits | 25,505 | 19,543 |
| Total non-conventional finance income | 862,580 | 1,138,065 |
| Total finance income | 1,123,117 | 1,422,720 |
| | | |
| *Finance cost* | | |
| - Conventional loans | 274,288 | 695,355 |
| - Conventional loans - (related party) | 88,318 | 108,158 |
| - Bonds/notes | 406,901 | 359,675 |
| - Lease liabilities | 353,152 | 61,025 |
| - Net interest on employee benefits | 563,399 | 557,467 |
| - Others | 105,187 | 146,795 |
| Conventional finance cost | 1,791,245 | 1,928,475 |
| | | |
| - SIDF | 59,404 | 68,381 |
| - Murabaha | 623,198 | 575,235 |
| - Ijarah facilities and others | 76,226 | 74,024 |
| Non-conventional financial expenses | 758,828 | 717,640 |
| Total finance cost | 2,550,073 | 2,646,115 |

## 35 Related party transactions and balances

Interests in subsidiaries are set out in Note 42.

Related party transactions and balances can be broken down as follows:

| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| | For the year ended 31 December 2019 | | 31 December 2019 | |
| Associates | 135,751 | 7,419,299 | 181,688 | 241,276 |
| Joint ventures | 12,017,790 | 675,859 | 2,399,183 | 26,838 |

| | 31 December 2019 | | |
|---|---|---|---|
| | Associates | Joint ventures | Total |
| Loans from related parties | - | 1,876,783 | 1,876,783 |
| Loans to related parties | 35,135 | 678,312 | 713,447 |

| | For the year ended 31 December 2019 | | |
|---|---|---|---|
| | Associates | Joint ventures | Total |
| Dividends paid to related parties | 587,500 | 4,659,490 | 5,246,990 |
| Dividends received from related parties | 242,323 | 929,142 | 1,171,465 |

| | 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 | 16,763 | 8,438,035 | 25,818 | 368,434 |
| Joint ventures | 16,633,292 | 665,301 | 3,256,958 | 45,798 |

| | 31 December 2018 | | |
|---|---|---|---|
| | Associates | Joint ventures | Total |
| Loans from related parties | - | 2,309,743 | 2,309,743 |
| Loans to related parties | 35,135 | 769,654 | 804,789 |

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| | Associates | Joint ventures | Total |
| Dividends paid to related parties | 650,000 | 7,581,939 | 8,231,939 |
| Dividends received from related parties | 148,619 | 504,217 | 652,836 |

### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

## 35 Related party transactions and balances (continued)

Transactions and balances with the Saudi government can be shown as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Purchases of goods and services | 35,659,076 | 40,452,392 |
| Sales of goods and services | 8,812,649 | 7,135,370 |
| Due to entities controlled by Saudi government | 2,072,071 | 2,630,608 |
| Due from entities controlled by Saudi government | 667,658 | 705,569 |

### Key management personnel compensation

In addition to remunerations to key management personnel, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. Remuneration of key management can be shown as follows:

| | For the year ended 31 December 2019 | For the year ended 31 December 2018 |
|---|---|---|
| Short-term employee benefits | 58,980 | 70,040 |
| Post-employment benefits | 448 | 494 |
| Other long-term benefits | 3,879 | 8,727 |
| Total | 63,307 | 79,261 |

## 36 Segment information

For management purposes, the Group is organised into three Strategic Business Units ("SBU") and Hadeed, a wholly-owned manufacturing business, which based on its products are grouped in three reporting segments.

The **Petrochemicals** SBU consists of chemicals and polymer products. Chemical products are produced from hydrocarbon feedstock including methane, ethane, propane, butane, and light naphtha, with a wide range of products including olefins, methanol, aromatics, glycols, carbon dioxide, ethylene, methyl tert-butyl ether (MTBE) and other chemicals. Polymer products include 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, Homo polymer, 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. Specialties' portfolio of flagship products – NORYL™, ULTEM™ , EXTEM™ and SILTEM™ resins, a vast range of LNP™ compounds and copolymers, and a variety of thermosets and additives – helps meet complex thermal, mechanical, optical and electrical performance and sustainability requirements.

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. rebar) 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 Petro-chemicals and Specialties SBU, Agri-nutrients SBU 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.

## 36 Segment information (continued)

The segments' financial details are shown below:

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Petrochemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Revenue | 121,828,759 | 7,118,386 | 10,790,239 | 139,737,384 |
| Depreciation, amortisation, impairment and write-offs | (18,405,496) | (905,581) | (1,274,261) | (20,585,338) |
| Income from operations | 13,814,438 | 2,014,403 | (995,834) | 14,833,007 |
| Share of results of associates and joint ventures | (1,850,048) | 254,699 | - | (1,595,349) |
| Finance cost, net | | | | (1,426,956) |
| Other expenses, net | | | | (128,396) |
| Income before zakat and income tax | | | | 11,682,306 |

| | 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-offs | (13,636,068) | (745,312) | (1,120,185) | (15,501,565) |
| Income from operations | 33,723,610 | 2,263,615 | 293,143 | 36,280,368 |
| Share of results of associates and joint ventures | 702,718 | 347,132 | - | 1,049,850 |
| Finance cost, net | | | | (1,223,395) |
| Other income, net | | | | (423,755) |
| Income before zakat and income tax | | | | 35,683,068 |

| | As at 31 December 2019 | | | |
|---|---|---|---|---|
| | Petrochemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Total assets | 280,998,483 | 11,674,577 | 17,692,691 | 310,365,751 |
| Total liabilities | 92,219,642 | 2,295,442 | 4,599,345 | 99,114,429 |

| | 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 |

## 36 Segment information (continued)

### Geographical distribution of revenue

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | | % | | % |
| KSA | 24,893,545 | 17% | 25,270,853 | 15% |
| China | 24,934,405 | 18% | 29,713,216 | 17% |
| Rest of Asia | 30,446,811 | 22% | 36,386,396 | 22% |
| Europe | 32,247,394 | 23% | 39,449,558 | 23% |
| Americas | 12,409,745 | 9% | 14,796,092 | 9% |
| Others (i) | 14,805,484 | 11% | 23,512,224 | 14% |
| | 139,737,384 | 100% | 169,128,339 | 100% |

The revenue information above is based on the locations of the customers.

(i) Others mainly includes sales made by certain subsidiaries to their foreign shareholders and for which detailed geographical breakdown for final end consumer sales is not available with the Group.

### Geographical distribution of property, plant and equipment

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | | % | | % |
| KSA | 133,034,221 | 82% | 138,563,584 | 85% |
| Europe (ii) | 14,217,886 | 9% | 13,948,735 | 8% |
| Americas (ii) | 14,244,967 | 8% | 9,759,324 | 6% |
| Asia (ii) | 1,488,871 | 1% | 1,545,226 | 1% |
| Others (ii) | 4,339 | - | 2,815 | - |
| | 162,990,284 | 100% | 163,819,684 | 100% |

(ii) Significant value of property, plant and equipment in Europe is concentrated in the Netherlands, UK, Germany and Spain; in the Americas, it is concentrated in the USA and in Asia, it is concentrated in China and India. Others include countries in Africa and Oceania.

## 37 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.

### 37.1 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.

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.

37 Financial risk management (continued)

37.1 Credit risk (continued)

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. Also, geographically there is no concentration of credit risk.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Credit quality of the customer is assessed based on an extensive credit rating scorecard. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers using an internal and external rating criteria. Credit quality of the customer is assessed based on a 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.

Credit risk quality

| | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| External Rating | AA+ | AA | AA- | A+ | A | A- | Others | Carrying value in the statement of financial position |
| Bank balances and time deposits | 50,600 | 3,176,516 | 8,022,937 | 20,402,168 | 2,574,871 | 3,315,234 | 769,364 | 38,311,690 |
| Investments in equity instruments | - | - | - | 313,141 | - | - | 732,868 | 1,046,009 |
| Investments in debt instruments | 382,792 | - | - | 2,049,246 | - | - | - | 2,432,038 |
| Short-term investments (i) | - | - | 111,980 | 1,327,400 | 701,270 | 687,377 | 1,644,081 | 4,472,108 |
| Total | 433,392 | 3,176,516 | 8,134,917 | 24,091,955 | 3,276,141 | 4,002,611 | 3,146,313 | 46,261,845 |

(i) Excludes investments in debt instruments.

## 37 Financial risk management (continued)

### 37.1 Credit risk (continued)

Credit risk quality (continued)

| | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| External Rating | AA+ | AA | AA- | A+ | A | A- | Others | Carrying value in the statement of financial position |
| Bank balances and time deposits | 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 | - | - | - | 305,294 | - | - | 784,815 | 1,090,109 |
| Investments in debt instruments | 388,404 | - | - | 2,668,285 | - | - | 12,401 | 3,069,090 |
| Short-term investments (i) | 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 | 971,754 | 426,408 | 1,589,085 | 24,406,985 | 12,143,148 | 8,117,530 | 8,364,659 | 56,019,569 |

(i) Excludes investments in debt instruments.

The credit ratings above are based on credit ratings issued by globally accepted credit rating agencies.

### 37.2 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.

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.

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.

37 Financial risk management (continued)

37.2 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Within 1 year | Between 1-5 years | More than 5 years | Total |
| Debt (excludes lease liabilities) | 6,765,474 | 25,299,920 | 9,488,034 | 41,553,428 |
| Short-term borrowings | 1,346,996 | - | - | 1,346,996 |
| Interest on loans and borrowings (i) | 1,184,782 | 3,075,627 | 635,872 | 4,896,281 |
| Trade payables | 12,888,175 | - | - | 12,888,175 |
| Lease liabilities | 1,599,096 | 4,165,074 | 2,904,960 | 8,669,130 |
| Other liabilities | 2,065,949 | - | - | 2,065,949 |
| | 25,850,472 | 32,540,621 | 13,028,866 | 71,419,959 |

(i) Excludes interest on lease

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Within 1 year | Between 1-5 years | More than 5 years | Total |
| Debt (excludes lease liabilities) | 4,098,894 | 35,426,705 | 6,019,150 | 45,544,749 |
| Short-term borrowings | 1,167,589 | - | - | 1,167,589 |
| Interest on loans and borrowings (i) | 1,477,096 | 3,670,073 | 1,007,730 | 6,154,899 |
| Trade payable | 14,969,357 | - | - | 14,969,357 |
| Other liabilities | 3,156,450 | - | - | 3,156,450 |
| Derivatives | 381 | - | - | 381 |
| | 24,869,767 | 39,096,778 | 7,026,880 | 70,993,425 |

(i) Excludes interest on lease

37.3 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.

37 Financial risk management (continued)

37.4 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 carried at FVIS. 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.

Net income would increase/decrease as a result of gains/losses on equity securities classified as investments in equity instruments carried at FVIS.

37.5 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 pegged to the USD. 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) and Chinese Yuan (CNY).

The currency risk on USD exposure is not considered significant by the Group as USD is pegged against SR.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in the exchange rate of SR to foreign currencies, with all other variables held constant, of the Group's monetary assets and liabilities net of hedges entered into for the year ended 31 December:

| | Gains (losses) through statement of income for the year ended | |
|---|---|---|
| | 31 December 2019 | 31 December 2018 |
| Increase in EUR/SR (10%) | 716,638 | (72,031) |
| Increase in GBP/SR (10%) | (20,968) | (70,056) |
| Increase in CNY/SR (10%) | 19,445 | 149,298 |

## 37 Financial risk management (continued)

### 37.5 Currency risk (continued)

Exposure to foreign currency risk at the end of the reporting year can be shown as follows (converted in SR '000):

| | As at 31 December 2019 | | |
|---|---|---|---|
| | EUR | GBP | CNY |
| Cash and bank balances (including fixed term deposits) | (1,698,140) | (190,576) | 240,958 |
| Trade receivables | 308,671 | 71,020 | 363,088 |
| Other monetary receivables | 5,514,973 | - | - |
| Debt | 3,235,755 | - | - |
| Trade payables | (194,876) | (47,497) | (72,888) |
| Other monetary payables | - | (42,625) | (336,706) |
| Total net monetary exposure | 7,166,383 | (209,678) | 194,452 |

| | As at 31 December 2018 | | |
|---|---|---|---|
| | EUR | GBP | CNY |
| Cash and bank balances (including fixed term deposits) | 988,961 | (892,503) | 1,092,707 |
| Trade receivables | 3,577,112 | 284,624 | 477,540 |
| Debt | (3,216,375) | - | - |
| Trade payables | (1,054,166) | (92,681) | (54,718) |
| Other monetary payables | (1,015,837) | - | (22,547) |
| Total net monetary exposure | (720,305) | (700,560) | 1,492,982 |

### 37.6 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. During 2019 and 2018, the Group had no interest rate swaps outstanding.

The following table demonstrates the sensitivity of the Group to a reasonably possible change in interest rates, 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 2019 | |
|---|---|---|
| | Gains (losses) through the consolidated statement of income | |
| | +100 bps | -100 bps |
| 3M SAIBOR | (495) | 495 |
| 6M SAIBOR | (1,158) | 1,158 |
| 9M SAIBOR | - | - |
| 1M LIBOR | - | - |
| 6M LIBOR | (4,310) | 4,310 |

## 37 Financial risk management (continued)

### 37.6 Interest rate risk (continued)

| | 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 |

### 37.7 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.

### 37.8 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 2019 | 31 December 2018 |
|---|---|---|
| Total liabilities | 99,114,429 | 98,274,399 |
| Less: cash and bank balances | (38,312,775) | (42,590,820) |
| Net debt | 60,801,654 | 55,683,579 |
| Total equity | 211,251,322 | 221,436,475 |
| Debt to equity ratio as of 31 December | 29% | 25% |

The net debt to equity ratio increased from 25% to 29% following the adoption of IFRS 16 Leases. Both net debt and gross assets increased following the recognition of right of use assets and lease liabilities on 1 January 2019. See note 4.

## 38 Commitments and contingencies

### Capital commitments

At 31 December 2019, the Group had commitments of SR 13.20 billion (31 December 2018: SR 9.92 billion) relating to capital expenditures.

SABIC has an equity contribution commitment towards its 15% interest in MWSPC. As of 31 December 2019, the outstanding commitment toward this investment amounts to SR 0.074 billion (31 December 2018: SR 0.07 billion). Pursuant to the terms of agreements with the other shareholders and external lenders, SABIC has agreed to contribute additional funds to the project, under certain circumstances and to the extent required, in the event of project cost over-runs.

SABIC also has an equity contribution commitment towards its 25% interest in Dussur. As at 31 December 2019, the outstanding commitment towards this investment amounts to nil (as at 31 December 2018: SR 0.28 billion).

The Group has entered into a 50/50 joint arrangement with ExxonMobil (through ExxonMobil Gulf Coast Investment LLC) to design, construct and operate a jointly-owned ethylene cracker and two polymer units. The project is expected to come on stream in 2022 or 2023.

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 17.9 billion as of 31 December 2019 (31 December 2018: SR 29.4 billion).

### Contingent assets

The Group has been granted call options to acquire shares in some joint ventures. Although the potential exercise date is quite remote, an estimate of the fair value of the call options is approximately SR 0.16 billion (2018: 0.19 billion).

### Contingent liabilities

The Group's bankers have issued, on its behalf, bank guarantees amounting to SR 3.17 billion (31 December 2018: SR 3.94 billion) in the normal course of business.

### Leases

The following lease related amounts recognised in consolidated statement of income:

| | For the year ended 31 December 2019 |
|---|---|
| Depreciation expense of right of use assets (Note 8) | 1,603,705 |
| Interest expense on lease liabilities (Note 30) | 353,152 |
| Expense related to short-term leases | 168,993 |
| Expense related to leases of low-value assets | 13,912 |
| Variable lease payments | 140,535 |

The Group had total cash outflows for leases of SR 1.72 billion in 2019. The Group also had non-cash additions to right of use assets and lease liabilities of SR 1.13 billion in 2019. The future cash outflows relating to leases are disclosed in note 37.

## 38 Commitments and contingencies (continued)

### Leases (continued)

Group as a lessor

Future minimum lease receivables under these contracts, together with the present value of the net minimum lease payments, are as follows:

| | 31 December 2019 | |
|---|---|---|
| | Minimum lease receivable | Present value |
| Within one year | 35,703 | 17,300 |
| After one year but not more than five years | 154,692 | 82,791 |
| More than five years | 185,045 | 137,821 |
| Total minimum lease receivable | 375,440 | 237,912 |
| Less: amounts representing finance income | (137,528) | - |
| Present value of minimum lease receivable | 237,912 | 237,912 |

| | 31 December 2018 | |
|---|---|---|
| | Minimum lease receivable | Present value |
| Within one year | 37,919 | 18,103 |
| After one year but not more than five years | 132,851 | 84,306 |
| More than five years | 242,150 | 153,666 |
| Total minimum lease receivable | 412,920 | 256,075 |
| Less: amounts representing finance income | (156,845) | - |
| Present value of minimum lease receivable | 256,075 | 256,075 |

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.

## 39 Reclassification in comparative numbers

During the year, the Group reclassified certain balances as listed below, which are considered by management a more accurate 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 |
|---|---|---|---|
| Consolidated statement of financial position | | | |
| Other non-current liabilities | 2,156,437 | 1,384,327 | (772,110) |
| Accruals and other current liabilities | 13,016,884 | 13,396,473 | 379,589 |
| Zakat and income tax payable | 4,204,317 | 4,596,838 | 392,521 |

## 40 Appropriations

The Annual General Assembly ("AGA"), in its meeting held on 4 Shabaan 1440H (corresponding to 9 April 2019), approved cash dividends of SR 13.2 billion (SR 4.4 per share), which includes the interim cash dividends amounting to SR 6.6 billion (SR 2.2 per share) for the first half of 2018, which has been recognised in equity in the consolidated financial statements for the year ended 31 December 2018. The remaining of the dividend declared of SR 6.6 billion has been recognised in the interim condensed consolidated financial statements for the period ended 30 June 2019, which was made available for distribution in April 2019.

The AGA also approved Board of Directors' remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 18 Ramadan 1440H (corresponding to 23 May 2019), SABIC declared interim cash dividends for the first half of the year 2019 amounting to SR 6.6 billion (at SR 2.2 per share), which has been recognised in the interim condensed consolidated financial statements for the period ended 30 June 2019, which was made available for distribution in September 2019.

On 20 Rabi Thani 1441H (corresponding to 17 December 2019), the Board of Directors proposed a distribution of cash dividends for the second half of the year 2019 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 2020.

## 41 Subsequent events

In February 2020, the Group announced its intention to idle its Ultem plant in Spain to optimise its global operations. The estimated impact, including restructuring charges, is estimated at SR 700 million.

On 3rd March 2020, the Group announced that it increased its share in Clariant from 24.99% to 31.5% as part of its ongoing growth strategy to achieve a leadership position in the Specialties market. The completion of the transaction is still subject to regulatory approvals.

## 42 Subsidiaries

SABIC Group's subsidiaries are set out below:

| | Country of incorporation | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|
| SABIC Luxembourg S.à r.l. ("SLUX") and its subsidiaries (Note 42.1) | Luxembourg | 100.00 | 100.00 |
| SABIC Industrial Investments Company ("SIIC") and its subsidiaries (Note 42.2) | KSA | 100.00 | 100.00 |
| Arabian Petrochemical Company ("PETROKEMYA") | KSA | 100.00 | 100.00 |
| Saudi Iron and Steel Company ("HADEED") | KSA | 100.00 | 100.00 |
| Sabic Investment and Local Content Development Company ("NUSANED") | KSA | 100.00 | - |
| SABIC Agri-Nutrients Investment Company ("SANIC") | KSA | 100.00 | - |
| International Shipping and Transportation Co. ("ISTC") | KSA | 100.00 | 100.00 |
| SABIC Supply Chain Services Limited Company ("SSCS") | KSA | 100.00 | 100.00 |
| Saudi European Petrochemical Company ("IBN ZAHR") | KSA | 80.00 | 80.00 |
| Jubail United Petrochemical Company ("UNITED") | KSA | 75.00 | 75.00 |
| National Chemical Fertiliser Company ("IBN AL-BAYTAR") | KSA | 71.50 | 71.50 |
| National Industrial Gases Company ("GAS") | KSA | 70.00 | 70.00 |
| Yanbu National Petrochemical Company ("YANSAB") | KSA | 51.95 | 51.95 |
| Saudi Methanol Company ("AR-RAZI") (Note 22.1) | KSA | 75.00 | 50.00 |
| Al-Jubail Fertiliser Company ("AL BAYRONI") | KSA | 50.00 | 50.00 |
| Saudi Yanbu Petrochemical Company ("YANPET") | KSA | 50.00 | 50.00 |
| National Methanol Company ("IBN-SINA") | KSA | 50.00 | 50.00 |
| Eastern Petrochemical Company ("SHARQ") | KSA | 50.00 | 50.00 |
| Al-Jubail Petrochemical Company ("KEMYA") | KSA | 50.00 | 50.00 |
| Saudi Methacrylates Company ("SAMAC") | KSA | 50.00 | 50.00 |
| Arabian Industrial Fibers Company ("IBN RUSHD") | KSA | 48.07 | 48.07 |
| Saudi Arabian Fertiliser Company ("SAFCO") | KSA | 42.99 | 42.99 |
| Saudi Kayan Petrochemical Company ("SAUDI KAYAN") | KSA | 35.00 | 35.00 |
| Saudi Speciality Chemicals Company ("SP. CHEM") | KSA | 100.00 | 100.00 |
| Saudi Organometallic Chemicals Company ("SOCC") | KSA | 50.00 | 50.00 |
| Saudi Petrochemical Company ("SADAF") | KSA | - | 100.00 |
| SABIC Sukuk Company ("SUKUK") | KSA | - | 100.00 |
| SABIC Industrial Catalyst Company ("SABCAT") | KSA | - | 100.00 |
| Saudi Carbon Fibre Company ("SCFC") | KSA | - | 100.00 |
| Saudi Japanese Acrylonitrile Company ("SHROUQ") | KSA | - | 100.00 |

Notes:

- The country of incorporation is also their principal place of business.
- The principal activities of majority of the Group's subsidiaries are manufacturing, marketing and distribution of petrochemical, specialties and related products except for SAFCO, AL BAYRONI and IBN AL-BAYTAR that are involved in agri-nutrients business; and HADEED is involved in metal business.
- YANSAB, SAFCO, and SAUDI KAYAN are public companies and listed on the Saudi Stock Exchange (Tadawul)
- NUSANED and SANIC are newly established entities. Nusaned is involved in promoting local business in KSA and provides financial and non-financial support. SANIC is established to facilitate the restructuring transaction of Agri-Nutrients business.
- SP. CHEM is 99% owned by Petrokemya and 1% owned by SIIC, and SOCC is 50% owned by SP. CHEM
- Effective 1 October 2019, SADAF merged with PETROKEMYA.
- SABCAT, SCFC and SHROUQ are in liquidation and controlled by the Liquidator.

## 42 Subsidiaries (continued)

### 42.1 SABIC Luxembourg S.à r.l. and its subsidiaries

| | Country of incorporation | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|
| **Subsidiaries** | | | |
| SABIC Innovative Plastics Argentina SRL | Argentina | 100.00 | 100.00 |
| SABIC Australia Pty Ltd. | Australia | 100.00 | 100.00 |
| SABIC Innovative Plastics Australia Pty Ltd. (i) | Australia | - | 100.00 |
| SABIC Innovative Plastics Austria GmbH | Austria | 100.00 | 100.00 |
| SABIC Innovative Plastics GmbH & Co. KG | Austria | 100.00 | 100.00 |
| SABIC Innovative Plastics South America - Indústria e Comércio de Plásticos Ltda | Brazil | 100.00 | 100.00 |
| NV Pijpleiding Antwerpen-Limburg-Luik (PALL) | Belgium | 100.00 | 100.00 |
| SABIC Belgium NV | Belgium | 100.00 | 100.00 |
| SABIC Innovative Plastics Canada, Inc. | Canada | 100.00 | 100.00 |
| SABIC Innovative Plastics (China) Co., Ltd. | China | 100.00 | 100.00 |
| SABIC Innovative Plastics (Chongqing) Co., Ltd. | China | 100.00 | 100.00 |
| SABIC Innovative Plastics International Trading (Shanghai) Ltd. | China | 100.00 | 100.00 |
| SABIC Innovative Plastics Management (Shanghai) Co., Ltd. | China | 100.00 | 100.00 |
| SABIC Innovative Plastics Shanghai Co., Ltd. | China | 100.00 | 100.00 |
| SABIC (Shanghai) Trading Co. Ltd. | China | 100.00 | 100.00 |
| SABIC (China) Research & Development Co. Ltd. | China | 100.00 | 100.00 |
| SABIC (Shanghai) Industry Co. Ltd. | China | 100.00 | 100.00 |
| SABIC Innovative Plastics Czech s.r.o. | Czech Republic | 100.00 | 100.00 |
| SABIC Innovative Plastics Denmark Aps | Denmark | 100.00 | 100.00 |
| SABIC Nordic A/S | Denmark | 100.00 | 100.00 |
| SABIC Innovative Plastics Finland Oy | Finland | 100.00 | 100.00 |
| SABIC France S.A.S. | France | 100.00 | 100.00 |
| SABIC Innovative Plastics France S.A.S. | France | 100.00 | 100.00 |
| SABIC Deutschland GmbH | Germany | 100.00 | 100.00 |
| SABIC Holding Deutschland GmbH | Germany | 100.00 | 100.00 |
| SABIC Innovative Plastics GmbH | Germany | 100.00 | 100.00 |
| SABIC Innovative Plastics Holding Germany GmbH | Germany | 100.00 | 100.00 |
| SABIC Polyolefine GmbH | Germany | 100.00 | 100.00 |
| SABIC Greece M.E.P.E. | Greece | 100.00 | 100.00 |
| SABIC Innovative Plastics Hong Kong Ltd. | Hong Kong | 100.00 | 100.00 |
| SABIC Innovative Plastics SIT Holding Ltd. | Hong Kong | 100.00 | 100.00 |
| SABIC Innovative Plastics Taiwan Holding Ltd. | Hong Kong | 100.00 | 100.00 |

(i) LE SABIC Innovative Plastics Australia Pty Ltd has been liquidated in 2019.

## 42 Subsidiaries (continued)

### 42.1 SABIC Luxembourg S.à r.l. and its subsidiaries (continued)

| | Country of incorporation | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|
| **Subsidiaries** | | | |
| SABIC Hungary Kft. | Hungary | 100.00 | 100.00 |
| SABIC Innovative Plastics Kereskedelmi Kft. | Hungary | 100.00 | 100.00 |
| SABIC India Pvt Ltd. | India | 100.00 | 100.00 |
| SABIC Innovative Plastics India Private Ltd. | India | 100.00 | 100.00 |
| SABIC R&T Pvt Ltd. | India | 100.00 | 100.00 |
| SABIC Innovative Plastics Italy Srl | Italy | 100.00 | 100.00 |
| SABIC Italia Srl | Italy | 100.00 | 100.00 |
| SABIC Sales Italy Srl | Italy | 100.00 | 100.00 |
| SABIC Japan Ltd. | Japan | 100.00 | 100.00 |
| SABIC Korea Ltd. | Korea | 100.00 | 100.00 |
| SABIC Luxembourg S.à r.l. | Luxembourg | 100.00 | 100.00 |
| SABIC Innovative Plastics Malaysia Sdn Bhd | Malaysia | 100.00 | 100.00 |
| SABIC Innovative Plastics Mexico S de RL de CV | Mexico | 100.00 | 100.00 |
| SABIC Innovative Plastics Servicios Mexico S de RL de CV | Mexico | 100.00 | 100.00 |
| BV Snij-Unie HiFi | Netherlands | 100.00 | 100.00 |
| FRT B.V. | Netherlands | 95.00 | 95.00 |
| FRT Tapes B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Capital B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Capital I B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Capital II B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Innovative Plastics GP B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Innovative Plastics Holding B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Innovative Plastics Utilities B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Licensing B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Limburg B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Sales Europe B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Petrochemicals B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Ventures B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Mining B.V. | Netherlands | 100.00 | 100.00 |
| Petrochemical Pipeline Services B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Europe B.V. | Netherlands | 100.00 | 100.00 |
| SABIC International Holdings B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Innovative Plastics B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Global Technologies B.V. | Netherlands | 100.00 | 100.00 |
| SABIC Innovative Plastics Poland Sp. Z o.o. | Poland | 100.00 | 100.00 |
| SABIC Poland Sp. Z o.o. | Poland | 100.00 | 100.00 |
| LLC SABIC Eastern Europe | Russia | 100.00 | 100.00 |
| SABIC Innovative Plastics Russia Z o.o. | Russia | 100.00 | 100.00 |

## 42 Subsidiaries (continued)

### 42.1 SABIC Luxembourg S.à r.l. and its subsidiaries (continued)

| | Country of incorporation | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|
| **Subsidiaries** | | | |
| SABIC Innovative Plastics (SEA) Pte. Ltd. | Singapore | 100.00 | 100.00 |
| SABIC Innovative Plastics Holding Singapore Pte. Ltd. | Singapore | 100.00 | 100.00 |
| SABIC Innovative Plastics Singapore Pte. Ltd. | Singapore | 100.00 | 100.00 |
| SABIC Asia Pacific Pte Ltd | Singapore | 100.00 | 100.00 |
| SABIC Innovative Plastics Espana ScpA | Spain | 100.00 | 100.00 |
| SABIC Innovative Plastics GP BV, Sociedad en Comandita | Spain | 100.00 | 100.00 |
| SABIC Sales Spain SL | Spain | 100.00 | 100.00 |
| SABIC Marketing Ibérica S.A. | Spain | 100.00 | 100.00 |
| Saudi Innovative Plastics Sweden AB | Sweden | 100.00 | 100.00 |
| SABIC Innovative Plastics (Thailand) Co. Ltd. | Thailand | 100.00 | 100.00 |
| SABIC Global Ltd. | UK | 100.00 | 100.00 |
| SABIC Tees Holdings Ltd. | UK | 100.00 | 100.00 |
| SABIC Innovative Plastics ABS UK Ltd. | UK | 100.00 | 100.00 |
| SABIC Innovative Plastics Ltd. | UK | 100.00 | 100.00 |
| SABIC UK Ltd. | UK | 100.00 | 100.00 |
| SABIC UK Pension Trustee Ltd. | UK | 100.00 | 100.00 |
| SABIC UK Petrochemicals Ltd. | UK | 100.00 | 100.00 |
| Exatec, LLC | US | 100.00 | 100.00 |
| Mt. Vernon Phenol Plant Partner | US | 51.00 | 51.00 |
| SABIC Americas Inc. | US | 100.00 | 100.00 |
| SABIC Innovative Plastics Holding US LP | US | 100.00 | 100.00 |
| SABIC Innovative Plastics Mt. Vernon, LLC | US | 100.00 | 100.00 |
| SABIC Innovative Plastics US LLC | US | 100.00 | 100.00 |
| SABIC Petrochemicals Holding US, Inc. | US | 100.00 | 100.00 |
| SABIC Ventures US Holdings LLC | US | 100.00 | 100.00 |
| SABIC US Projects LLC | US | 100.00 | 100.00 |
| SABIC Uruguay SA | Uruguay | 100.00 | 100.00 |
| SABIC Vietnam Ltd. | Vietnam | 100.00 | 100.00 |
| SABIC Americas Growth LLC | US | 100.00 | 100.00 |
| SABIC US Methanol LLC | US | 100.00 | 100.00 |
| Black Diamonds Structures, LL | US | 50.10 | 50.10 |

Note:

- Black Diamonds Structures, LL; 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 10). This investment has been sold dated 2nd February 2020.
- SABIC is working on carve-out projects that will impact the structure of the SLUX legal entities and business model in FY 2020, as a project is expected to be completed in 2020. The project represents the carve-out of the majority of the current Specialty business called High-Performance Polymers ("HPP") which is embedded in the Innovative Plastics group. This carve-out will result in the creation of approximately 36 additional legal entities.

## 42 Subsidiaries (continued)

### 42.2 SIIC Group Subsidiaries

| | Country of incorporation | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|
| SABCAP Insurance Limited ("SABCAP") | Guernsey | 100.00 | 100.00 |
| SABIC Petrokemya Ticaret Limited ("SABIC TURKEY") | Turkey | 100.00 | 100.00 |
| SABIC Middle East Offshore Company ("SABIC MIDDLE EAST") | Lebanon | 100.00 | 100.00 |
| SABIC South Africa | South Africa | 100.00 | 100.00 |
| SABIC Africa for Trading & Marketing ("SABIC AFRICA") | Egypt | 100.00 | 100.00 |
| SABIC Morocco | Morocco | 100.00 | 100.00 |
| SABIC Global Mobility Company ("GMC") | UAE | 100.00 | 100.00 |
| SABIC Mobility Company ("GMC LLC") | UAE | 100.00 | 100.00 |
| SABIC Tunisia | Tunisia | 100.00 | 100.00 |
| SABIC Kenya | Kenya | 100.00 | 100.00 |
| SABIC (Pvt.) Pakistan | Pakistan | 100.00 | 100.00 |
| International Shipping and Transportation Co. ("ISTC") | KSA | 99.00 | 99.00 |
| SABIC Supply Chain Services Limited Company ("SSCS") | KSA | 99.00 | - |
| SABIC Terminal Services Company ("SABTANK") | KSA | 90.00 | 90.00 |
| Jubail Chemical Storage and Services Company ("CHEMTANK") | KSA | 75.00 | 75.00 |

Notes:

- On 27 December 2018, SABIC transferred its 99% ownership of SSCS to the SIIC.
- 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.

## 43 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.

| | Country of incorporation | Principal activities | % Shareholding (direct and indirect) as at 31 December 2019 | % Shareholding (direct and indirect) as at 31 December 2018 |
|---|---|---|---|---|
| **Associates** | | | | |
| Gulf Petrochemical Industries Company ("GPIC") | Bahrain | Petrochemical | 33.33 | 33.33 |
| Gulf Aluminium Rolling Mills Company ("GARMCO") | Bahrain | Aluminium | 30.40 | 30.40 |
| Ma'aden Phosphate Company ("MPC") | KSA | Agri-Nutrients | 30.00 | 30.00 |
| Power and Water Utilities Company for Jubail and Yanbu ("MARAFIQ") | KSA | Utilities | 24.81 | 24.81 |
| Aluminium Bahrain BSC ("ALBA") | Bahrain | Aluminium | 20.62 | 20.62 |
| National Chemical Carrier Company ("NCC") | KSA | Transportation | 20.00 | 20.00 |
| Ma'aden Wa'ad Al Shamal Phosphate Company ("MWSPC") | KSA | Agri-Nutrients | 15.00 | 15.00 |
| Saudi Arabian Industrial Investment Company ("DUSSUR") | KSA | Investments | 25.00 | 25.00 |
| Clariant AG ("CLARIANT") | Switzerland | Specialty chemical | 24.99 | 24.99 |
| Saudi Acrylic Butanol Company ("SABUCO") | KSA | Petrochemical | 33.33 | 33.33 |
| **Joint Ventures** | | | | |
| SINOPEC/SABIC Tianjin Petrochemical Company Limited | China | Petrochemical | 50.00 | 50.00 |
| SABIC SK Nexelene Company | Singapore | Petrochemical | 50.00 | 50.00 |
| Cosmar Inc. ("COSMAR") | USA | Petrochemical | 50.00 | 50.00 |
| **Joint Operations** | | | | |
| Utility Support Group ("USG") B.V. | Netherlands | Petrochemical | 50.00 | 50.00 |
| Gulf Coast Growth Venture LLC ("GCGV") | USA | Petrochemical | 50.00 | 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 10.1)
- The Group participates in following Joint Operations:
  - USG (Geleen, the Netherlands), which is operated jointly with other stakeholders to produce utilities for a production site
  - GCGV (Houston, USA), a cooperation with ExxonMobil Chemical to investigate the feasibility of constructing an ethane steam cracking facility and downstream plants.

  The Group holds a 50% share in each of these joint operations and controls them jointly with the respective partners. The partners ensure the ongoing financing of the companies, either by the utilities directly sold to the partners or sharing the costs.

**SAUDI BASIC INDUSTRIES CORPORATION**
**(SABIC) AND ITS SUBSIDIARIES**
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER**
**2020 AND INDEPENDENT AUDITOR'S REVIEW REPORT**

Building a better working world

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**Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Basic Industries Corporation (SABIC)**
**(A Saudi Joint Stock Company)**

## Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Basic Industries Corporation ("SABIC") and its subsidiaries (collectively with SABIC referred to as "the Group") as at 30 September 2020, and the related interim condensed consolidated statements of income and comprehensive income for the three and nine months periods ended 30 September 2020, and the related interim condensed consolidated statements of changes in equity and cash flows for the nine months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

Riyadh: 12 Rabi' al-awwal 1442H
(29 October 2020)

# Interim condensed consolidated statement of financial position

(All amounts in Saudi Riyals '000 unless otherwise stated)

| | Notes | As at 30 September 2020 | As at 31 December 2019 (Restated, Note 10) |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | | 133,799,901 | 136,416,155 |
| Right-of-use assets | | 5,825,891 | 6,440,505 |
| Intangible assets | 3.1 | 20,283,528 | 20,491,548 |
| Investments in associates and joint ventures | 3.1, 4.1 | 39,289,408 | 38,765,203 |
| Other non-current assets | 3.2, 5 | 11,234,745 | 10,844,838 |
| **Total non-current assets** | | 210,433,473 | 212,958,249 |
| **Current assets:** | | | |
| Inventories | | 20,461,976 | 22,565,110 |
| Trade receivables | | 16,019,660 | 16,746,049 |
| Prepayments and other current assets | | 5,435,841 | 6,013,341 |
| Short-term investments | | 6,292,071 | 5,558,554 |
| Cash and bank balances | | 31,341,725 | 36,639,314 |
| **Total current assets** | | 79,551,273 | 87,522,368 |
| TOTAL ASSETS | | 289,984,746 | 300,480,617 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the Parent | | 165,033,409 | 178,721,524 |
| Non-controlling interests | | 26,562,484 | 28,091,139 |
| **Total equity** | | 191,595,893 | 206,812,663 |
| **Non-current liabilities:** | | | |
| Long-term debt and lease liabilities | | 39,016,227 | 36,128,330 |
| Employee benefits | | 18,040,231 | 15,810,405 |
| Other non-current liabilities | 3.2, 6 | 5,600,214 | 4,185,997 |
| **Total non-current liabilities** | | 62,656,672 | 56,124,732 |
| **Current liabilities:** | | | |
| Short-term borrowings, current portion of long-term debt and lease liabilities | | 8,256,193 | 8,216,808 |
| Trade payables and other current liabilities | | 27,475,988 | 29,326,414 |
| **Total current liabilities** | | 35,732,181 | 37,543,222 |
| **Total liabilities** | | 98,388,853 | 93,667,954 |
| TOTAL EQUITY AND LIABILITIES | | 289,984,746 | 300,480,617 |

EVP Corporate Finance | Vice Chairman & CEO | Authorised Board of Directors Member

The accompanying notes from 1 to 12 form an integral part of these interim condensed consolidated financial statements.

## Interim condensed consolidated statement of income

(All amounts in Saudi Riyals '000 unless otherwise stated)

| | Notes | For the three months period ended 30 September | | For the nine months period ended 30 September | |
|---|---|---|---|---|---|
| | | 2020 | 2019 (Restated, Note 10) | 2020 | 2019 (Restated, Note 10) |
| Revenue | | **29,295,071** | 32,809,628 | **84,107,645** | 103,719,173 |
| Cost of sales | | **(22,775,251)** | (24,831,293) | **(69,406,655)** | (77,791,801) |
| **Gross profit** | | **6,519,820** | 7,978,335 | **14,700,990** | 25,927,372 |
| General and administrative expenses | | **(2,485,918)** | (2,419,890) | **(7,554,123)** | (7,283,465) |
| Selling and distribution expenses | | **(2,193,497)** | (2,275,998) | **(6,865,727)** | (7,215,553) |
| | | **1,840,405** | 3,282,447 | **281,140** | 11,428,354 |
| Share of results of integral joint ventures | *3.1* | **263,066** | 505,416 | **502,461** | 1,535,451 |
| **Income from operations** | | **2,103,471** | 3,787,863 | **783,601** | 12,963,805 |
| Share of results of non-integral joint ventures and associates | *3.1, 4.1* | **503,366** | (1,419,193) | **(166,792)** | (1,376,586) |
| Finance cost, net | *3.2* | **(209,239)** | (398,797) | **(867,238)** | (887,625) |
| Other income, net | | **32,197** | 106,163 | **71,696** | 274,378 |
| **Income (loss) before zakat and income tax** | | **2,429,795** | 2,076,036 | **(178,733)** | 10,973,972 |
| Zakat expense | | **(497,190)** | (629,161) | **(1,494,715)** | (1,927,190) |
| Income tax expense, net | | **(302,718)** | (28,831) | **119,550** | (472,524) |
| **Net income (loss) for the period** | | **1,629,887** | 1,418,044 | **(1,553,898)** | 8,574,258 |
| | | | | | |
| **Attributable to:** | | | | | |
| Equity holders of the Parent | | **1,088,531** | 737,039 | **(2,181,397)** | 6,089,603 |
| Non-controlling interests | | **541,356** | 681,005 | **627,499** | 2,484,655 |
| | | **1,629,887** | 1,418,044 | **(1,553,898)** | 8,574,258 |
| | | | | | |
| **Basic and diluted earnings per share (Saudi Riyals):** | | | | | |
| Earnings per share from income from operations | | **0.70** | 1.26 | **0.26** | 4.32 |
| Earnings per share from net income (loss) attributable to equity holders of the Parent | | **0.36** | 0.25 | **(0.73)** | 2.03 |

EVP Corporate Finance | Vice Chairman & CEO | Authorised Board of Directors Member

The accompanying notes from 1 to 12 form an integral part of these interim condensed consolidated financial statements.

# Interim condensed consolidated statement of comprehensive income

(All amounts in Saudi Riyals '000 unless otherwise stated)

| | For the three months period ended 30 September | | For the nine months period ended 30 September | |
|---|---|---|---|---|
| | **2020** | 2019 (Restated, Note 10) | **2020** | 2019 (Restated, Note 10) |
| Net income (loss) for the period | **1,629,887** | 1,418,044 | **(1,553,898)** | 8,574,258 |
| **Other comprehensive income** | | | | |
| *Items that will not be reclassified to the consolidated statement of income (net of tax):* | | | | |
| - Re-measurement loss on defined benefit plans and others | **(169,336)** | (1,473,986) | **(1,493,324)** | (2,593,033) |
| - Share of other comprehensive income of associates and joint ventures | **4,783** | (117,883) | **(66,422)** | (167,726) |
| - Net change on revaluation of investments in equity instruments at FVOCI | **-** | - | **-** | (20,579) |
| *Items that will be reclassified to the consolidated statement of income (net of tax):* | | | | |
| - Exchange difference on translation of foreign operations and others | **867,125** | (830,642) | **583,195** | (906,029) |
| - Share of other comprehensive income of associates and joint ventures | **391,392** | (476,364) | **340,432** | (412,449) |
| **Movement of other comprehensive income (loss)** | **1,093,964** | (2,898,875) | **(636,119)** | (4,099,816) |
| **Total comprehensive income (loss) for the period** | **2,723,851** | (1,480,831) | **(2,190,017)** | 4,474,442 |
| **Attributable to:** | | | | |
| Equity holders of the Parent | **2,228,616** | (1,983,887) | **(2,588,115)** | 2,262,774 |
| Non-controlling interests | **495,235** | 503,056 | **398,098** | 2,211,668 |
| | **2,723,851** | (1,480,831) | **(2,190,017)** | 4,474,442 |

EVP Corporate Finance | Vice Chairman & CEO | Authorised Board of Directors Member

The accompanying notes from 1 to 12 form an integral part of these interim condensed consolidated financial statements.

## Interim condensed consolidated statement of changes in equity

(All amounts in Saudi Riyals '000 unless otherwise stated)

| | Attributable to the equity holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | General reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| 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 |
| Change in accounting treatment (Note 3.1) | - | - | - | - | 10,715,269 | 10,715,269 | (16,908,621) | (6,193,352) |
| Balance as at 1 January 2019 (Restated) | 30,000,000 | 15,000,000 | 110,889,032 | (1,359,184) | 29,269,801 | 183,799,649 | 31,443,474 | 215,243,123 |
| Net income | - | - | - | - | 6,089,603 | 6,089,603 | 2,484,655 | 8,574,258 |
| Other comprehensive loss | - | - | - | (3,826,829) | - | (3,826,829) | (272,987) | (4,099,816) |
| Total comprehensive (loss) income | - | - | - | (3,826,829) | 6,089,603 | 2,262,774 | 2,211,668 | 4,474,442 |
| Acquisition of non-controlling interests | - | - | - | 15,154 | 5,535,402 | 5,550,556 | (532,811) | 5,017,745 |
| Change in accounting treatment (Note 3.2) | - | - | - | - | (705,743) | (705,743) | 1,013,728 | 307,985 |
| Dividends and others | - | - | - | - | (13,200,000) | (13,200,000) | (3,898,440) | (17,098,440) |
| Balance as at 30 September 2019 | 30,000,000 | 15,000,000 | 110,889,032 | (5,170,859) | 26,989,063 | 177,707,236 | 30,237,619 | 207,944,855 |
| | | | | | | | | |
| Balance as at 31 December 2019 | 30,000,000 | 15,000,000 | 110,889,032 | (3,265,084) | 16,137,960 | 168,761,908 | 42,489,414 | 211,251,322 |
| Change in accounting treatment (Note 3.1, 3.2) | - | - | - | - | 9,959,616 | 9,959,616 | (14,398,275) | (4,438,659) |
| Balance as at 1 January 2020 (Restated, Note 10) | 30,000,000 | 15,000,000 | 110,889,032 | (3,265,084) | 26,097,576 | 178,721,524 | 28,091,139 | 206,812,663 |
| **Net (loss) income** | **-** | **-** | **-** | **-** | **(2,181,397)** | **(2,181,397)** | **627,499** | **(1,553,898)** |
| **Other comprehensive loss** | **-** | **-** | **-** | **(406,718)** | **-** | **(406,718)** | **(229,401)** | **(636,119)** |
| **Total comprehensive (loss) income** | **-** | **-** | **-** | **(406,718)** | **(2,181,397)** | **(2,588,115)** | **398,098** | **(2,190,017)** |
| **Dividends and others** | **-** | **-** | **-** | **-** | **(11,100,000)** | **(11,100,000)** | **(1,926,753)** | **(13,026,753)** |
| **Balance as at 30 September 2020** | **30,000,000** | **15,000,000** | **110,889,032** | **(3,671,802)** | **12,816,179** | **165,033,409** | **26,562,484** | **191,595,893** |

EVP Corporate Finance | Vice Chairman & CEO | Authorised Board of Directors Member

The accompanying notes from 1 to 12 form an integral part of these interim condensed consolidated financial statements.

## Interim condensed consolidated statement of cash flows

(All amounts in Saudi Riyals '000 unless otherwise stated)

| | For the nine months period ended 30 September 2020 | For the nine months period ended 30 September 2019 (Restated) |
|---|---|---|
| **Operating activities:** | | |
| (Loss) income before zakat and income tax | **(178,733)** | 10,973,972 |
| *Adjustments to reconcile (loss) income before zakat and income tax to net cash inflow from operating activities:* | | |
| - Depreciation, amortisation and impairment | **12,734,378** | 10,872,340 |
| - Finance costs | **869,569** | 797,069 |
| - Share of results of non-integral joint ventures and associates | **166,792** | 1,376,586 |
| - Provisions and other movements, net | **472,956** | (45,241) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in other non-current assets | **(2,978,013)** | 1,752,191 |
| Working capital changes | **3,047,979** | (1,403,842) |
| Increase in net employee benefits obligations | **736,503** | 2,024,588 |
| Other assets and liabilities changes | **2,749,092** | 334,949 |
| **Cash from operations** | **17,620,523** | 26,682,612 |
| Finance cost paid | **(922,493)** | (908,168) |
| Zakat and income tax paid | **(2,561,798)** | (3,160,206) |
| **Net cash from operating activities** | **14,136,232** | 22,614,238 |
| **Investing activities:** | | |
| Purchase of tangible and intangible assets | **(8,730,279)** | (12,128,556) |
| Short-term investments, net | **(1,091,869)** | 3,473,419 |
| Investments in associates and joint ventures, net | **(671,203)** | 841,777 |
| Other assets movements | **622,418** | 530,801 |
| **Net cash used in investing activities** | **(9,870,933)** | (7,282,559) |
| **Financing activities:** | | |
| Proceeds from debt | **6,319,113** | 7,471,102 |
| Proceeds against acquisition of non-controlling interests | **1,687,500** | 1,125,000 |
| Debt and lease repayments | **(4,072,624)** | (12,895,393) |
| Dividends to shareholders and non-controlling interests | **(13,338,054)** | (18,041,319) |
| **Net cash used in financing activities** | **(9,404,065)** | (22,340,610) |
| Net decrease in cash and cash equivalents | **(5,138,766)** | (7,008,931) |
| Cash and cash equivalents at the beginning of the period | **35,292,318** | 36,915,581 |
| **Cash and cash equivalents at the end of the period** | **30,153,552** | 29,906,650 |
| Cash and bank balances | **31,341,725** | 30,473,368 |
| Less: bank overdrafts | **(1,188,173)** | (566,718) |
| **Cash and cash equivalents** | **30,153,552** | 29,906,650 |

EVP Corporate Finance | Vice Chairman & CEO | Authorised Board of Directors Member

The accompanying notes from 1 to 12 form an integral part of these interim condensed consolidated financial statements.

## 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).

On 16 June 2020, Saudi Arabian Oil Co. ("Saudi Aramco") acquired 70% ownership over SABIC through one of its subsidiary, "Aramco Chemicals Company" from the Government of the Kingdom of Saudi Arabia ("KSA") through the Public Investment Fund ("PIF"). The other 30% ownership is held 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 the manufacturing, marketing and distribution of chemicals, polymers, plastics, agri-nutrients and metal products in global markets.

The interim condensed consolidated financial statements of the Group for the nine months period ended 30 September 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 22 October 2020.

## 2. Basis of preparation

These interim condensed consolidated financial statements for the three and nine months periods ended 30 September 2020 have been prepared in accordance with International Accounting Standard 34 *'Interim Financial Reporting'* ("IAS 34") as endorsed in the KSA and other standards and pronouncements that are endorsed by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should therefore be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

An interim period is considered as integral part of the whole fiscal year, however, the results of operations for the interim periods may not be a fair indication of the results of the full year operations.

## 3. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in preparing the Group's annual consolidated financial statements for the year ended 31 December 2019, except for change in accounting treatment as elaborated in Note 3.1 and Note 3.2 amendments to International Financial Reporting Standards ("IFRS") that have to be mandatorily applied from 1 January 2020.

### 3.1. Change in accounting treatment for certain joint arrangements (Note 10)

During the period, in connection with the acquisition of 70% of SABIC by Saudi Aramco, SABIC has reappraised certain critical management judgments, which it has previously applied and disclosed in Note 3.2.2. of the consolidated financial statements for the year ended at 31 December 2019 relating to determination of whether control, joint control or significant influence is present with respect to investments in non-wholly owned subsidiaries and joint arrangements, respectively. To support the control presumption when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group now places more weight on the legal and contractual ability to exercise power, including the potential substantive voting rights, if any. As a result of this reassessment, SABIC has concluded that four entities which were previously accounted as subsidiaries (KEMYA, YANPET, SHARQ and SAMAC) should now be accounted for as joint arrangements.

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 3. Summary of significant accounting policies (continued)

### 3.1. Change in accounting treatment for certain joint arrangements (Note 10) (continued)

Further, SADAF and AR-RAZI that are subsidiaries at 30 September 2020 and consolidated line by line in these interim condensed consolidated financial statements have also been accounted as joint arrangements since their founding, based on the reappraised critical judgment, until SABIC acquired control in 2017 and 2018, respectively. The impact of step acquisition upon acquiring control by SABIC is recognised in the interim condensed consolidated statement of financial position and changes in equity.

The acquisition of 70% of SABIC by Saudi Aramco has neither changed nor is expected to change the existing relationship between SABIC and the four entities mentioned above, which are now accounted for as joint arrangements. Hence, the resultant change in accounting treatment from the reassessment of management judgments has been considered a change in accounting treatment and applied retrospectively in accordance with IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

Based on the contractual arrangement, management has assessed that, of the four entities noted above, KEMYA, YANPET and SHARQ meets the definition of a joint venture and SAMAC meets the definition of a joint operation, in accordance with IFRS 11 '*Joint Arrangements*'.

Reassessment of critical management judgment relating to determination of whether control, joint control or significant influence is present with respect to investments in non-wholly owned subsidiaries, joint arrangements or associates, respectively, has affected the total equity at 1 January 2019, as per below:

| | Attributable to the equity holders of the Parent | Non-controlling interests | Total equity |
|---|---|---|---|
| Balance as at 31 December 2018 | 173,084,380 | 48,352,095 | 221,436,475 |
| *Change in accounting treatment* | | | |
| - SHARQ | - | (8,470,937) | (8,470,937) |
| - YANPET | - | (3,366,385) | (3,366,385) |
| - KEMYA | - | (4,852,558) | (4,852,558) |
| - SAMAC (50%) | - | (849,230) | (849,230) |
| - SADAF | 4,371,776 | - | 4,371,776 |
| - AR-RAZI | 6,343,493 | 630,489 | 6,973,982 |
| | 10,715,269 | (16,908,621) | (6,193,352) |
| Balance as at 1 January 2019 (Restated) | 183,799,649 | 31,443,474 | 215,243,123 |

The restatement, reflecting the changes, is set out in Note 10 to these interim condensed consolidated financial statements.

Further to this change in accounting treatment, SABIC has also revised its definition of 'income from operations' as presented in the interim condensed consolidated statement of income. Having considered the nature and objective of its interests in associates and joint ventures, SABIC concluded that its interest in joint ventures for which it manages the production, logistics, feedstock and shared services are integral to, and support SABIC's core operating activities. Accordingly, SABIC has chosen to revise its definition of 'income from operations' to include its share of results of integral joint ventures, whilst its share of results of associates and non-integral joint ventures continues to be reported outside 'income from operations', in order to provide reliable and more relevant information. KEMYA, YANPET and SHARQ are considered to be integral joint ventures.

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 3. Summary of significant accounting policies (continued)

### 3.2. Change in accounting treatment for forward contracts and options

As disclosed in Note 22.1 of the consolidated financial statements for the year ended 31 December 2019, the forward contract relating to AR-RAZI was accounted for by reclassifying non-controlling interests attributable to AR-RAZI as non-current liabilities at each reporting date based on management's best estimate for the net present value of the settlement price payable at the end of the joint venture agreement.

In connection with the acquisition of 70% interest in SABIC by Saudi Aramco, SABIC decided to make a policy choice in accordance with IFRS 9 'Financial Instruments' related to derivatives on equity instruments for its forward contracts and changed its accounting policy to be consistent with the accounting policies of Saudi Aramco. The change in accounting policy is as per below:

- Non-controlling interest continues to receive an allocation of income/loss
- Financial liability for the forward contract is recognised at the present value of the amount payable upon exercise of the forward contract.

This change in accounting policy has been applied retrospectively during the third quarter of 2020 with net increase of total equity with corresponding net decrease of other non-current liabilities amounted to SR 308 million. Subsequently, forward contract is accounted for under IFRS 9 Financial Instruments with the movements recognised through the consolidated statement of income.

The impact of above changes (Note 3.1 and 3.2) are:

| | Balance as at 31 December 2019 (Audited) | Change in accounting treatment for certain joint arrangements (Note 3.1 and Note 10) | Change in accounting treatment for forward contracts (Note 3.2) | Balance as at 1 January 2020 (Restated) |
|---|---|---|---|---|
| Equity attributable to equity holders of the Parent | 168,761,908 | 10,665,359 | (705,743) | 178,721,524 |
| Non-controlling interests | 42,489,414 | (15,412,003) | 1,013,728 | 28,091,139 |
| Total equity | 211,251,322 | (4,746,644) | 307,985 | 206,812,663 |
| Non-current liabilities | 61,667,193 | (5,234,476) | (307,985) | 56,124,732 |
| Current liabilities | 37,447,236 | 95,986 | - | 37,543,222 |
| Total liabilities | 99,114,429 | (5,138,490) | (307,985) | 93,667,954 |
| Total equity and liabilities | 310,365,751 | (9,885,134) | - | 300,480,617 |

In addition to the above, call and put options are now recognised in the financial statements as financial assets (SR 1,653 million) and financial liabilities (SR 1,592 million), instead of being disclosed as contingent assets (refer Note 38 of consolidated financial statements for the year ended 31 December 2019). This change represent change in accounting estimates with prospective effect due to changes in probabilities associated with exercise of option rights. The net impact of this change of estimate was amounted to SR 61 million recorded against the finance income and finance cost in the interim condensed consolidated statement of income for the period ended 30 September 2020.

## 3. Summary of significant accounting policies (continued)

### 3.3. Amendments to IFRS

The following amendments to IFRS that have to be mandatorily applied as per 1 January 2020 by the Group, which are relevant to the Group:

#### 3.3.1. Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 *'Business Combinations'* clarifies the definition of a business as an integrated set of activities and assets that must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. However, a business can exist without including all of the inputs and processes needed to create outputs. These amendments have no impact on the interim condensed consolidated financial statements of the Group, but may affect future periods should the Group enter into any business combinations.

#### 3.3.2. Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IAS 1 *'Presentation of Financial Statements'* and IAS 8 *'Accounting policies, Changes in Accounting Estimates and Errors'* provide a new definition of material. This definition states: "*information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.*" Materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the interim condensed consolidated financial statements. The Group has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective.

## 4. Significant matters during the period

### 4.1. Investment in Clariant AG

On 3 March 2020, SABIC announced the purchase of approximately 21 million additional shares ("the Shares") representing 6.51% of outstanding shares in Clariant AG ("Clariant"), a global specialty chemicals company listed at the Swiss stock exchange ("SIX") in which SABIC held already a 24.99% investment. The Shares were retained in an escrow account, controlled by an independent third party, therefore outside the control of SABIC, pending regulatory approvals. Until the obtainment of such regulatory approvals, the transaction was not closed, hence SABIC did not have any legal or economic rights on the Shares and it was not registered as a shareholder of the Shares.

On 7 September 2020, SABIC received the last required clearance from the relevant regulatory authorities and the Shares were released from the escrow account and transferred to SABIC, which became the legal owner of the Shares and entitled to the related legal and economic benefits as of such date.

As of the purchase date (3 March 2020) and until regulatory clearance (7 September 2020), the Shares in the escrow account qualified as a prepayment as per IFRS 9 Financial Assets. In accordance with IAS 1 provision, and in order to give a fair and comprehensive presentation of the carrying amount, this prepayment was presented in aggregate with the previously held investment.

Consistently with the prior periods, management concluded not to have control over Clariant and, accordingly, the investment is accounted for as an associate applying the equity method.

The trading price of a Clariant share as at 30 September 2020 was CHF 18.16.

## 4. Significant matters during the period (continued)

### 4.2. Restructuring of asset portfolio and impairment (reversal of impairment) of financial assets

In February 2020, SABIC has announced that it will suspend the production of ULTEM™ high heat polymers ("HHP") at its Cartagena (Spain) facility during the year as part of its global operation optimisation. The impact of this restructuring program is SR 713 million for the period ended 30 September 2020, which is included in cost of sales in the interim condensed consolidated income statement.

In June 2020, a SR 1.18 billion plant and equipment impairment charge was recorded. The impairment refers to positioning certain Petrochemical SBU assets in the European region driven by the Company's continuous efforts to strengthen synergies in its asset base and operating model and following ongoing changes in the market conditions and competitive environment.

In September 2020, SABIC has decided to record an impairment charge and the reversal of an impairment provision in certain financial assets, net positive impact was amounted to SR 683 million.

### 4.3. Issuance of bond

In September 2020, SABIC Capital I BV, an indirect wholly owned subsidiary of SABIC, issued a 10 year and 30 year USD 500 million bond each, equivalent to total SR 3.75 billion. These bonds are unsecured and carry coupon rates of 2.15 % and 3.00 % for those maturing in 10 and 30 years, respectively. The bonds are issued in accordance with Regulation S offering requirements under the U.S. Securities Act of 1933, as amended. Both bonds are listed on the Irish Stock Exchange (Euronext Dublin) and the 30 year is dual listed in Taipei Exchange in Taiwan. The proceeds were used for general propose and refinancing maturing debt.

### 4.4. COVID-19 assessment

The outbreak of novel coronavirus ("COVID-19") since early 2020 and its spread across mainland China and then globally caused disruptions to businesses and economic activities including the KSA. The World Health Organisation qualified COVID-19 as a pandemic, with governments issuing strict regulations and guidance for its populations and companies. It necessitated the Group to re-assess its judgments and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019.

During the quarter ended 30 September 2020, management has assessed the overall impact on the Group's operations and business aspects, and considered factors like effects on supply chain, impact of decreased oil prices, operating rates of its plants and lost volume, additional cost in supply chain, margin squeeze, and product demand. Majority of the planned shutdowns and turnarounds, which drive some part of the fixed costs have been rescheduled. Based on this assessment, no significant adjustments were required in the interim condensed consolidated financial statements for the period ended 30 September 2020. However, in view of the ongoing uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and/or liabilities in future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 5. Other non-current assets

| | As at 30 September 2020 | As at 31 December 2019 (Restated, Note 10) |
|---|---|---|
| Employee advances and loans | 3,416,445 | 3,700,444 |
| Long-term receivable from associates and joint ventures | 1,375,062 | 1,439,878 |
| Investments in debt instruments | 1,039,392 | 1,345,592 |
| Investments in equity instruments and funds | 1,136,882 | 1,046,009 |
| Receivables from JSMC | - | 1,606,049 |
| Deferred tax assets | 1,085,123 | 711,609 |
| Others* | 3,181,841 | 995,257 |
| | 11,234,745 | 10,844,838 |

* Include financial assets against options. (Note 3.2)

## 6. Other non-current liabilities

| | As at 30 September 2020 | As at 31 December 2019 (Restated, Note 10) |
|---|---|---|
| Deferred tax liabilities | 589,823 | 707,108 |
| Long-term payables to associates and joint ventures | 1,582,974 | 1,685,892 |
| Obligation to acquire the remaining shares of certain subsidiaries* | 2,297,618 | 705,743 |
| Others | 1,129,799 | 1,087,254 |
| | 5,600,214 | 4,185,997 |

* Include financial liabilities against options. (Note 3.2)

## 7. Fair value measurement

Description of valuation techniques used and key inputs to valuation investments in equity instruments is as follows:

| Valuation technique | Significant non-observable input | Range |
|---|---|---|
| Market approach | • Equity value to EBITDA multiple | 7.9 to 13.1 |
| | • Midpoint of Net Asset Value and Price to Book multiple | 0.76 |
| Net Asset Value approach | Point estimate of distributable cash and cash equivalents and net assets | SR 46.1 to SR 49.9 |
| Expected Returns approach | Equity value to Revenue multiple | 0.73 |

At 30 September 2020, the fair values of Group's other financial assets and financial liabilities approximate the carrying value.

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 8. Related party transactions and balances

The significant related party transactions and balances are broken down as follows:

| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties | Loans to related parties | Loans from related parties |
|---|---|---|---|---|---|---|
| | For the nine months period ended 30 September 2020 | | As at 30 September 2020 | | As at 30 September 2020 | |
| Associates | 97,093 | 2,420,472 | 36,421 | 357,313 | 35,135 | - |
| Joint ventures and partners | 8,081,708 | 11,448,439 | 1,275,674 | 2,980,097 | 702,226 | 107,812 |
| Saudi Aramco and its subsidiaries [effective from 16 June] | 1,426,411 | 4,595,460 | 578,823 | 3,413,870 | - | - |
| | For the nine months period ended 30 September 2019 (Restated) | | As at 31 December 2019 (Restated) | | As at 31 December 2019 (Restated) | |
| Associates | 116,621 | 2,806,950 | 31,454 | 149,469 | 35,135 | - |
| Joint ventures and partners | 9,664,064 | 14,974,155 | 1,329,168 | 3,297,949 | 615,142 | 107,812 |

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 9. Segment information

For management purposes, the Group is organised into three Strategic Business Units ("SBUs") and Hadeed, a wholly owned manufacturing business, which based on its products are grouped in three reporting segments.

Based on a management decision and in line with changes in management reporting, the income, expenses, assets and liabilities relating to 'Corporate' segment, in prior years, has been allocated over the Petrochemicals & Specialties and Agri-nutrients SBUs and Hadeed according to an internally agreed consistent basis. All intercompany transactions within the reporting segments have been appropriately eliminated.

The segments' financial details are shown below:

| | For the three months period ended 30 September 2020 | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Revenue | 25,548,329 | 1,566,913 | 2,179,829 | 29,295,071 |
| Depreciation, amortisation and impairment | (3,220,572) | (141,819) | (199,715) | (3,562,106) |
| Income (loss) from operations | 2,087,702 | 456,161 | (440,392) | 2,103,471 |
| Share of results of non-integral joint ventures and associates | 622,285 | (118,919) | - | 503,366 |
| Finance cost, net | | | | (209,239) |
| Other expenses, net | | | | 32,197 |
| Income before zakat and income tax | | | | 2,429,795 |

| | For the three months period ended 30 September 2019 (Restated 10) | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Revenue | 28,825,179 | 1,679,270 | 2,305,179 | 32,809,628 |
| Depreciation, amortisation and impairment | (3,358,961) | (200,504) | (281,738) | (3,841,203) |
| Income (loss) from operations | 3,590,414 | 420,748 | (223,299) | 3,787,863 |
| Share of results of non-integral joint ventures and associates | (1,374,262) | (44,931) | - | (1,419,193) |
| Finance cost, net | | | | (398,797) |
| Other income, net | | | | 106,163 |
| Income before zakat and income tax | | | | 2,076,036 |

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 9. Segment information (continued)

| | For the nine months period ended 30 September 2020 | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Revenue | 72,854,868 | 4,620,583 | 6,632,194 | 84,107,645 |
| Depreciation, amortisation and impairment | (11,442,979) | (530,131) | (761,268) | (12,734,378) |
| Income (loss) from operations | 831,049 | 1,188,832 | (1,236,280) | 783,601 |
| Share of results of non-integral joint ventures and associates | 187,250 | (354,042) | - | (166,792) |
| Finance cost, net | | | | (867,238) |
| Other income, net | | | | 71,696 |
| Loss before zakat and income tax | | | | (178,733) |

| | For the nine months period ended 30 September 2019 (Restated, Note 10) | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Revenue | 90,306,062 | 5,291,407 | 8,121,704 | 103,719,173 |
| Depreciation, amortisation and impairment | (9,437,569) | (592,719) | (842,052) | (10,872,340) |
| Income (loss) from operations | 11,873,507 | 1,444,026 | (353,728) | 12,963,805 |
| Share of results of non-integral joint ventures and associates | (1,349,584) | (27,002) | - | (1,376,586) |
| Finance cost, net | | | | (887,625) |
| Other income, net | | | | 274,378 |
| Income before zakat and income tax | | | | 10,973,972 |

| | As at 30 September 2020 | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Total assets | 261,538,843 | 11,744,444 | 16,701,459 | 289,984,746 |
| Total liabilities | 91,253,080 | 2,301,515 | 4,834,258 | 98,388,853 |

| | As at 31 December 2019 (Restated, Note 10) | | | |
|---|---|---|---|---|
| | Petro-chemicals & Specialties | Agri-nutrients | Hadeed | Consolidated |
| Total assets | 271,113,349 | 11,674,577 | 17,692,691 | 300,480,617 |
| Total liabilities | 86,773,167 | 2,295,442 | 4,599,345 | 93,667,954 |

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 9. Segment information (continued)

### Geographical distribution of revenue

| | For the three months period ended 30 September 2020 | | For the three months period ended 30 September 2019 (Restated, Note 10) | |
|---|---|---|---|---|
| KSA | 4,724,461 | 16% | 4,807,789 | 15% |
| China | 5,942,460 | 20% | 6,262,629 | 18% |
| Rest of Asia | 7,148,696 | 25% | 7,420,043 | 23% |
| Europe | 6,559,724 | 23% | 7,712,943 | 24% |
| Americas | 2,752,748 | 9% | 3,008,475 | 9% |
| Others | 2,166,982 | 7% | 3,597,749 | 11% |
| | 29,295,071 | 100% | 32,809,628 | 100% |

| | For the nine months period ended 30 September 2020 | | For the nine months period ended 30 September 2019 (Restated, Note 10) | |
|---|---|---|---|---|
| KSA | 13,787,638 | 16% | 15,715,443 | 15% |
| China | 15,854,669 | 19% | 18,597,496 | 18% |
| Rest of Asia | 19,970,325 | 24% | 23,737,768 | 23% |
| Europe | 19,414,997 | 23% | 24,985,358 | 24% |
| Americas | 7,792,229 | 9% | 9,466,404 | 9% |
| Others | 7,287,787 | 9% | 11,216,704 | 11% |
| | 84,107,645 | 100% | 103,719,173 | 100% |

The revenue information above is based on the locations of the customers.

### Geographical distribution of property, plant and equipment

| | As at 30 September 2020 | | As at 31 December 2019 (Restated, Note 10) | |
|---|---|---|---|---|
| KSA | 103,548,099 | 77% | 106,460,091 | 78% |
| Europe | 12,873,528 | 10% | 14,217,886 | 10% |
| Americas | 15,940,383 | 12% | 14,244,967 | 11% |
| Asia | 1,434,305 | 1% | 1,488,871 | 1% |
| Others | 3,586 | - | 4,340 | - |
| | 133,799,901 | 100% | 136,416,155 | 100% |

## 10. Restatement due to change in accounting treatment

SABIC changed the accounting treatment of certain entities as elaborated in Note 3.1 In completion of the process for the acquisition of 70% of the shares of SABIC by Saudi Aramco, certain studies and analyses were accomplished to align the efforts of the two companies to achieve their strategic goals at the local and global levels. These studies and analyses included the alignment of significant accounting estimates, assumptions and judgments ("significant judgments") particularly in the control assessment of SABIC's investments in certain legal entities ("legal entities"), which SABIC holds 50% shareholding. Currently, the number of these legal entities is seven, and they are all located in the industrial cities of the Kingdom of Saudi Arabia.

In conformity with its previous critical judgments, SABIC had consolidated the financial statements of those legal entities in accordance with the IFRS as endorsed in KSA up to 31 March 2020. The consolidation of these legal entities' financial statements mainly depends on applying "critical judgments" besides applying the relevant standards, which in some cases are not compatible with the accounting judgments applied by Saudi Aramco. Being the "Parent Company" as of the date of acquiring SABIC, Saudi Aramco is required to prepare its consolidated financial statements using unified accounting policies and judgments for transactions and other events under similar circumstances. Accordingly, SABIC and Saudi Aramco have aligned the "critical judgments" applied in this regard, and to follow unified accounting policies and judgments applied by Saudi Aramco.

In line with these unified accounting policies and judgments, and based on a re-assessment of the control over these legal entities, the accounting treatment of the following four legal entities have changed:

1. Saudi Yanbu Petrochemical Company ("YANPET")
2. Al-Jubail Petrochemical Company ("KEMYA")
3. Eastern Petrochemical Company ("SHARQ")
4. Saudi Methacrylates Company ("SAMAC")

SABIC, as on the date of Saudi Aramco's acquisition during the second quarter of 2020, has ceased consolidating the financial statements of these four legal entities and considered them as "joint arrangements" and retrospectively recognised three of them ("YANPET", "KEMYA" and "SHARQ") as investment in "joint ventures", applying the equity method of accounting while recognizing SAMAC as investments in "joint operation" by recognising the related share of assets and liabilities, revenue and expenses.

Due to the change in critical judgments, SABIC reviewed other joint arrangements it held in the past and concluded that SADAF and AR-RAZI would have been similarly recognised. SABIC has applied acquisition accounting in accordance with IFRS 3 '*Business Combinations*' upon acquiring control.

In August 2017, SABIC increased its shareholding in SADAF from 50% to 100% as a result of exercising an option to purchase the remaining 50% of shares held by another investor and obtained control of SADAF at this date.

In November 2018, SABIC obtained control of AR-RAZI as a result of the expiry of the Joint Venture Agreement SABIC held with another investor, which gave SABIC the immediate right to purchase the remaining 50% of shares held by another investor. In addition, negotiations with the other investor resulted in the conclusion of a transaction in June 2019, which resulted in an increase of SABIC's shareholding in AR-RAZI to 75%. Considering this transaction is related to the acquisition of an additional ownership interest in a subsidiary without a change of control, accordingly, it has been accounted for as an equity transaction and excess consideration over the carrying amount of the non-controlling interests is recognised in equity attributable to the Parent amounting to SR 5,550 million.

At the time of acquiring control, as per the management's best estimates the acquisition accounting has resulted in the recognition of step up of property, plant and equipment of SR 2,980 million (SADAF representing SR 1,539 million and AR-RAZI representing SR 1,441 million) and goodwill amounting of SR 8,888 million (SADAF representing SR 5,702 million and AR-RAZI representing SR 3,186 million). The impacts of this retrospective control assessment are non-cash in nature.

The other change in accounting treatment is the change in accounting related to forward contracts for AR-RAZI as explained in Note 3.2.

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 10. Restatement due to change in accounting treatment (continued)

The impact of all above adjustments are presented in the below table:

| | As at 31 December 2019 (Restated) | Adjustments | As at 31 December 2019 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets: | | | |
| Property, plant and equipment | 136,416,155 | (26,574,129) | 162,990,284 |
| Right of use assets | 6,440,505 | (625,460) | 7,065,965 |
| Intangible assets | 20,491,548 | 8,113,935 | 12,377,613 |
| Investments in associates and joint ventures | 38,765,203 | 15,414,809 | 23,350,394 |
| Other non-current assets | 10,844,838 | 1,224,559 | 9,620,279 |
| Total non-current assets | 212,958,249 | (2,446,286) | 215,404,535 |
| Current assets: | | | |
| Inventories | 22,565,110 | (3,848,470) | 26,413,580 |
| Trade receivables | 16,746,049 | (1,576,503) | 18,322,552 |
| Prepayments and other current assets | 6,013,341 | (340,414) | 6,353,755 |
| Short-term investments | 5,558,554 | - | 5,558,554 |
| Cash and bank balances | 36,639,314 | (1,673,461) | 38,312,775 |
| Total current assets | 87,522,368 | (7,438,848) | 94,961,216 |
| TOTAL ASSETS | 300,480,617 | (9,885,134) | 310,365,751 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the Parent | 178,721,524 | 9,959,616 | 168,761,908 |
| Non-controlling interests | 28,091,139 | (14,398,275) | 42,489,414 |
| Total equity | 206,812,663 | (4,438,659) | 211,251,322 |
| Non-current liabilities: | | | |
| Long-term debt and lease liabilities | 36,128,330 | (4,099,095) | 40,227,425 |
| Employee benefits | 15,810,405 | (2,238,443) | 18,048,848 |
| Other non-current liabilities | 4,185,997 | 795,077 | 3,390,920 |
| Total non-current liabilities | 56,124,732 | (5,542,461) | 61,667,193 |
| Current liabilities: | | | |
| Short-term borrowings, current portion of long-term debt and lease liabilities | 8,216,808 | (1,291,323) | 9,508,131 |
| Trade payables and other current liabilities | 29,326,414 | 1,387,309 | 27,939,105 |
| Total current liabilities | 37,543,222 | 95,986 | 37,447,236 |
| Total liabilities | 93,667,954 | (5,446,475) | 99,114,429 |
| TOTAL EQUITY AND LIABILITIES | 300,480,617 | (9,885,134) | 310,365,751 |

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 10. Restatement due to change in accounting treatment (continued)

| | For the three months period ended 30 September 2019 (Restated) | Adjustments | For the three months period ended 30 September 2019 |
|---|---|---|---|
| Revenue | 32,809,628 | (879,872) | 33,689,500 |
| Cost of sales | (24,831,293) | (774,903) | (24,056,390) |
| Gross profit | 7,978,335 | (1,654,775) | 9,633,110 |
| | | | |
| General and administrative expenses | (2,419,890) | 199,505 | (2,619,395) |
| Selling and distribution expenses | (2,275,998) | 81,309 | (2,357,307) |
| | 3,282,447 | (1,373,961) | 4,656,408 |
| Share of results of integral joint ventures | 505,416 | 505,416 | - |
| Income from operations | 3,787,863 | (868,545) | 4,656,408 |
| | | | |
| Share of results of non-integral joint ventures and associates | (1,419,193) | (296) | (1,418,897) |
| Finance cost, net | (398,797) | 55,918 | (454,715) |
| Other income (expenses), net | 106,163 | 121,090 | (14,927) |
| Income before zakat and income tax | 2,076,036 | (691,833) | 2,767,869 |
| | | | |
| Zakat expense | (629,161) | 45,839 | (675,000) |
| Income tax expense, net | (28,831) | 226,627 | (255,458) |
| Net income for the period | 1,418,044 | (419,367) | 1,837,411 |
| | | | |
| Attributable to: | | | |
| Equity holders of the Parent | 737,039 | (97,063) | 834,102 |
| Non-controlling interests | 681,005 | (322,304) | 1,003,309 |
| | 1,418,044 | (419,367) | 1,837,411 |
| | | | |
| Total comprehensive loss for the period | (1,480,831) | (312,023) | (1,168,808) |
| | | | |
| Attributable to: | | | |
| Equity holders of the Parent | (1,983,887) | (97,063) | (1,886,824) |
| Non-controlling interests | 503,056 | (214,960) | 718,016 |
| | (1,480,831) | (312,023) | (1,168,808) |

(All amounts in Saudi Riyals '000 unless otherwise stated)

## 10. Restatement due to change in accounting treatment (continued)

| | For the nine months period ended 30 September 2019 (Restated) | Adjustments | For the nine months period ended 30 September 2019 |
|---|---|---|---|
| Revenue | 103,719,173 | (3,207,009) | 106,926,182 |
| Cost of sales | (77,791,801) | (1,790,373) | (76,001,428) |
| Gross profit | 25,927,372 | (4,997,382) | 30,924,754 |
| General and administrative expenses | (7,283,465) | 557,730 | (7,841,195) |
| Selling and distribution expenses | (7,215,553) | 229,683 | (7,445,236) |
| | 11,428,354 | (4,209,969) | 15,638,323 |
| Share of results of integral joint ventures | 1,535,451 | 1,535,451 | - |
| Income from operations | 12,963,805 | (2,674,518) | 15,638,323 |
| Share of results of non-integral joint ventures and associates | (1,376,586) | (297) | (1,376,289) |
| Finance cost, net | (887,625) | 218,760 | (1,106,385) |
| Other income (expenses), net | 274,378 | 365,349 | (90,971) |
| Income before zakat and income tax | 10,973,972 | (2,090,706) | 13,064,678 |
| Zakat expense | (1,927,190) | 97,810 | (2,025,000) |
| Income tax expense, net | (472,524) | 451,594 | (924,118) |
| Net income for the period | 8,574,258 | (1,541,302) | 10,115,560 |
| Attributable to: | | | |
| Equity holders of the Parent | 6,089,603 | (268,090) | 6,357,693 |
| Non-controlling interests | 2,484,655 | (1,273,212) | 3,757,867 |
| | 8,574,258 | (1,541,302) | 10,115,560 |
| Total comprehensive income for the period | 4,474,442 | (1,382,587) | 5,857,029 |
| Attributable to: | | | |
| Equity holders of the Parent | 2,262,774 | (268,090) | 2,530,864 |
| Non-controlling interests | 2,211,668 | (1,114,497) | 3,326,165 |
| | 4,474,442 | (1,382,587) | 5,857,029 |

## 11. Appropriations

The Annual General Assembly ("AGA"), in its meeting held on 28 Shabaan 1441H (corresponding to 21 April 2020), approved cash dividends of SR 13.2 billion (SR 4.4 per share), which includes the interim cash dividends amounting to SR 6.6 billion (SR 2.2 per share) for the first half of 2019, which has been recognised in equity in the consolidated financial statements for the year ended 31 December 2019. The remaining of the dividend declared of SR 6.6 billion has been recognised in the interim condensed consolidated financial statements for the period ending 30 September 2020.

The AGA also approved Board of Directors' remuneration of SR 1.8 million that is charged to general and administrative expenses.

On 24 Shawwal 1441H (corresponding to 16 June 2020), SABIC declared interim cash dividends for the first half of the year 2020 amounting to SR 4.5 billion (at SR 1.5 per share), which has been recognised in these interim condensed consolidated financial statements for the period ended 30 September 2020.

## 12. Subsequent events

In the opinion of management, there have been no further significant subsequent events since the period ended 30 September 2020, which would have a material impact on the financial position of the Group as reflected in these interim condensed consolidated financial statements.

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