saudi aramco

this is energy this is aramco

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

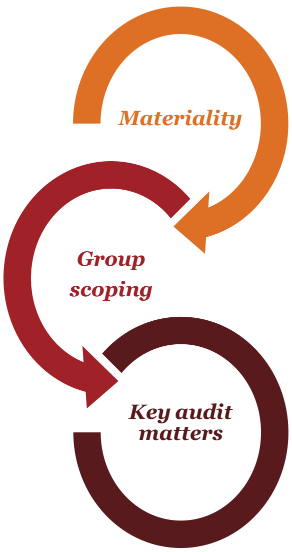
We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers, License No. 25, Saudi Aramco, P.O. Box 1659, Dhahran 31311, Kingdom of Saudi Arabia
T: +966 (13) 873-6800, F: +966 (13) 873-8883, www.pwc.com/middle-east

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.

pwc

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. • 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.

pwc

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. 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. 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: • Forecast prices; • Expected product volumes; • Future operating and development costs; • Terminal values; and • Discount rates. 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. We considered this to be a key audit matter given the judgment involved in identifying impairment triggers and the complexity inherent in valuation modelling. *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. With input from our internal valuation experts, we performed the following procedures on management's valuation models, as appropriate: • Considered the appropriateness of the assets and liabilities allocated to CGUs; • Compared a sample of forecast prices to market data points; • Considered the consistency of certain unobservable inputs such as expected product volumes and future operating and development costs with approved business plans; • Evaluated the reasonableness of approved business plans by comparison to historical results; • Assessed the reasonableness of the approach and inputs used to determine terminal values; • Evaluated the reasonableness of discount rates by cross-checking the underlying assumptions against observable market data; and • Sensitized key assumptions to assess the potential impact on recoverable amounts of a range of possible outcomes. We also considered the appropriateness of the related accounting policies and disclosures in the consolidated financial statements.

pwc

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.

As part of the adoption exercise, management:

- 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;
- Implemented system changes and set up new processes and controls to deal with the new lease accounting methodology; and
- Determined the appropriate transitional adjustments and the disclosures required to be included in the consolidated financial statements.

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.

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.

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:

- Gained an understanding of management's implementation plan and the processes and controls introduced as part of the IFRS 16 adoption;
- 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;
- 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
- For samples selected from both the above-mentioned schedules, tested the following, as appropriate:

  (a) Management's assessment of whether or not the contracts contained leases;
  (b) Appropriateness of the practical expedients applied;
  (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;
  (d) Appropriateness of the key judgments underlying the determination of lease terms; and
  (e) Reasonableness of the discount rates used with reference to incremental borrowing rates.

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.

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
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 balance sheet

	Note	SAR		USD*	
		At December 31		At December 31	
		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
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 financial statements for the year ended December 31, 2019 12

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 financial statements for the year ended December 31, 2019 13

Consolidated statement of cash flows

	Note	SAR Year ended December 31 2019	SAR 2018	USD* Year ended December 31 2019	USD* 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.

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

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 consolidated financial statements for the year ended December 31, 2019 16

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 consolidated financial statements for the year ended December 31, 2019 32

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 consolidated financial statements for the year ended December 31, 2019 34

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 consolidated financial statements for the year ended December 31, 2019 36

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 consolidated financial statements for the year ended December 31, 2019 45

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 consolidated financial statements for the year ended December 31, 2019 50

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 consolidated financial statements for the year ended December 31, 2019 52

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 consolidated financial statements for the year ended December 31, 2019 55

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 consolidated financial statements for the year ended December 31, 2019 56

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 consolidated financial statements for the year ended December 31, 2019 62

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 consolidated financial statements for the year ended December 31, 2019 64

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 consolidated financial statements for the year ended December 31, 2019 65

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 consolidated financial statements for the year ended December 31, 2019 71

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.