SAUDI ARABIAN OIL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Saudi Arabian Oil Company
Consolidated Financial Statements
(All amounts in millions unless otherwise stated)

CONSOLIDATED STATEMENT OF INCOME

		SAR		USD*	
		Year ended December 31		Year ended December 31	
	Note	2018	2017	2018	2017
Revenue	21	**1,182,137**	840,483	**315,236**	224,129
Other income related to sales		**152,641**	150,176	**40,704**	40,047
Revenue and other income related to sales		**1,334,778**	990,659	**355,940**	264,176
Production royalties and excise and other taxes		**(208,505)**	(140,893)	**(55,601)**	(37,572)
Purchases	27	**(188,937)**	(126,093)	**(50,383)**	(33,625)
Producing and manufacturing		**(56,202)**	(56,962)	**(14,987)**	(15,190)
Selling, administrative and general		**(31,250)**	(30,994)	**(8,333)**	(8,265)
Exploration		**(7,928)**	(13,725)	**(2,114)**	(3,660)
Research and development		**(2,217)**	(1,902)	**(591)**	(507)
Depreciation and amortization	5,6	**(41,334)**	(37,175)	**(11,023)**	(9,913)
Operating costs		**(536,373)**	(407,744)	**(143,032)**	(108,732)
Operating income		**798,405**	582,915	**212,908**	155,444
Share of results of joint ventures and associates	7	**(1,415)**	(956)	**(377)**	(255)
Finance and other income	22	**3,865**	1,569	**1,030**	418
Finance costs	17	**(2,959)**	(2,090)	**(789)**	(557)
Income before income taxes		**797,896**	581,438	**212,772**	155,050
Income taxes	8	**(381,378)**	(296,819)	**(101,701)**	(79,152)
Net income		**416,518**	284,619	**111,071**	75,898
Net income attributable to					
Shareholder's equity		**416,196**	283,198	**110,985**	75,519
Non-controlling interests		**322**	1,421	**86**	379
		416,518	284,619	**111,071**	75,898

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

Khalid A. Al-Falih
Chairman of the Board

Amin H. Nasser
President & Chief Executive Officer

Khalid H. Al-Dabbagh
Senior Vice President, Finance, Strategy & Development

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		SAR		USD*	
		Year ended December 31		Year ended December 31	
	Note	2018	2017	2018	2017
Net income		**416,518**	284,619	**111,071**	75,898
Other comprehensive income (loss), net of tax	16				
Items that will not be reclassified to net income					
Change in post-employment benefit deferred tax asset due to new income tax rates		**(119)**	(15,475)	**(32)**	(4,127)
Remeasurement of post-employment benefit obligations		**6,920**	3,761	**1,845**	1,003
Share of post-employment benefit obligations remeasurement from joint ventures and associates		**—**	3	**—**	1
Changes in fair value of equity investments classified as fair value through other comprehensive income		**(811)**	—	**(216)**	—
Items that may be reclassified subsequently to net income					
Cash flow hedges and other		**36**	(169)	**10**	(45)
Changes in fair value of debt securities classified as fair value through other comprehensive income		**(762)**	—	**(203)**	—
Change in deferred tax liability on investments in securities due to new income tax rate		**—**	1,921	**—**	512
Fair value adjustments of available-for-sale financial assets		**—**	1,147	**—**	306
Share of other comprehensive income of joint ventures and associates		**(283)**	456	**(76)**	122
Currency translation differences		**(1,110)**	3,333	**(296)**	889
		3,871	(5,023)	**1,032**	(1,339)
Total comprehensive income		**420,389**	279,596	**112,103**	74,559
Total comprehensive income attributable to					
Shareholder's equity		**420,524**	277,017	**112,139**	73,871
Non-controlling interests		**(135)**	2,579	**(36)**	688
		420,389	279,596	**112,103**	74,559

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CONSOLIDATED BALANCE SHEET

		SAR		USD*	
		At December 31		At December 31	
	Note	2018	2017	2018	2017
Assets					
Non-current assets					
Property, plant and equipment	5	**873,827**	751,134	**233,021**	200,302
Intangible assets	6	**26,896**	24,346	**7,172**	6,492
Investments in joint ventures and associates	7	**22,579**	27,273	**6,021**	7,273
Deferred income tax assets	8	**9,866**	13,606	**2,631**	3,628
Other assets and receivables	9	**13,127**	14,119	**3,501**	3,765
Investments in securities	10	**17,214**	18,872	**4,590**	5,033
		963,509	849,350	**256,936**	226,493
Current assets					
Inventories	11	**43,580**	34,013	**11,621**	9,070
Trade receivables	12	**93,818**	86,892	**25,018**	23,171
Due from the Government	13	**48,140**	38,991	**12,837**	10,398
Other assets and receivables	9	**13,775**	5,881	**3,673**	1,568
Short-term investments	14	**194**	6,184	**52**	1,649
Cash and cash equivalents	15	**183,152**	81,242	**48,841**	21,665
		382,659	253,203	**102,042**	67,521
Total assets		**1,346,168**	1,102,553	**358,978**	294,014
Equity and liabilities					
Shareholder's equity					
Share capital	1	**60,000**	—	**16,000**	—
Stated capital	1	**—**	60,000	**—**	16,000
Additional paid-in capital		**26,981**	26,981	**7,195**	7,195
Retained earnings:					
Unappropriated		**920,625**	715,107	**245,500**	190,695
Appropriated		**6,000**	6,000	**1,600**	1,600
Other reserves	16	**3,176**	5,670	**847**	1,512
		1,016,782	813,758	**271,142**	217,002
Non-controlling interests		**11,653**	12,556	**3,107**	3,348
		1,028,435	826,314	**274,249**	220,350
Non-current liabilities					
Borrowings	17	**71,329**	68,692	**19,021**	18,318
Deferred income tax liabilities	8	**23,877**	6,309	**6,367**	1,682
Post-employment benefit obligations	18	**23,209**	38,191	**6,189**	10,184
Provisions	19	**15,606**	13,997	**4,162**	3,733
		134,021	127,189	**35,739**	33,917
Current liabilities					
Trade and other payables	20	**72,286**	62,055	**19,276**	16,548
Obligations to the Government:					
Income taxes	8	**69,575**	57,679	**18,553**	15,381
Royalties		**11,862**	20,410	**3,164**	5,443
Borrowings	17	**29,989**	8,906	**7,997**	2,375
		183,712	149,050	**48,990**	39,747
		317,733	276,239	**84,729**	73,664
Total equity and liabilities		**1,346,168**	1,102,553	**358,978**	294,014

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SAR								USD*
	Shareholder's equity								
				Retained earnings					
	Share capital	Stated capital	Additional paid-in capital	Unappropriated	Appropriated[1]	Other reserves (Note 16)	Non-controlling interests	Total	Total
Balance at January 1, 2017	—	60,000	26,981	631,481	6,000	128	10,756	735,346	196,092
Net income	—	—	—	283,198	—	—	1,421	284,619	75,898
Other comprehensive (loss) income	—	—	—	—	—	(6,181)	1,158	(5,023)	(1,339)
Total comprehensive income (loss)	—	—	—	283,198	—	(6,181)	2,579	279,596	74,559
Transfer of post-employment benefit obligations remeasurement	—	—	—	(11,723)	—	11,723	—	—	—
Distributions	—	—	—	(187,849)	—	—		(187,849)	(50,093)
Acquisition of subsidiary	—	—	—	—	—	—	94	94	25
Change in control of affiliate	—	—	—	—	—	—	218	218	58
Dividends paid to non-controlling interests	—	—	—	—	—	—	(1,091)	(1,091)	(291)
Balance at December 31, 2017	**—**	**60,000**	**26,981**	**715,107**	**6,000**	**5,670**	**12,556**	**826,314**	**220,350**
Net income	**—**	**—**	**—**	**416,196**	**—**	**—**	**322**	**416,518**	**111,071**
Other comprehensive income (loss)	**—**	**—**	**—**	**—**	**—**	**4,328**	**(457)**	**3,871**	**1,032**
Total comprehensive income (loss)	**—**	**—**	**—**	**416,196**	**—**	**4,328**	**(135)**	**420,389**	**112,103**
Conversion to joint stock company (Note 1)	**60,000**	**(60,000)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer of post-employment benefit obligations remeasurement	**—**	**—**	**—**	**6,822**	**—**	**(6,822)**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**(217,500)**	**—**	**—**	**—**	**(217,500)**	**(58,000)**
Change in control of an affiliate	**—**	**—**	**—**	**—**	**—**	**—**	**134**	**134**	**36**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**(902)**	**(902)**	**(240)**
Balance at December 31, 2018	**60,000**	**—**	**26,981**	**920,625**	**6,000**	**3,176**	**11,653**	**1,028,435**	**274,249**

* Supplementary information is converted at a fixed rate of U.S. dollar 1.00 = SAR 3.75 for convenience only.

(1) Appropriated retained earnings represent a legal reserve as established under the 1988 Articles of the Saudi Arabian Oil Company which is not available for distribution (Note 1).

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CONSOLIDATED STATEMENT OF CASH FLOWS

		SAR		USD*	
		Year ended December 31		Year ended December 31	
	Note	2018	2017	2018	2017
Income before income taxes		**797,896**	581,438	**212,772**	155,050
Adjustments to reconcile income before income taxes to net cash provided by operating activities					
Depreciation and amortization	5,6	**41,334**	37,175	**11,023**	9,913
Provisions		**107**	(91)	**28**	(24)
Exploration and evaluation costs written off		**2,951**	8,522	**787**	2,272
Net gain on disposal of property, plant and equipment		**—**	(464)	**—**	(124)
Share of results of joint ventures and associates	7	**1,415**	956	**377**	255
Finance income	22	**(2,840)**	(1,217)	**(757)**	(324)
Finance costs	17	**2,959**	2,090	**789**	557
Dividends from investments in securities		**(143)**	(141)	**(38)**	(38)
(Gain)/loss on remeasurement of investments in affiliates	31	**(870)**	262	**(232)**	70
Change in fair value of investments through profit or loss		**(594)**	(38)	**(158)**	(10)
Change in joint ventures and associates inventory profit elimination		**103**	(530)	**27**	(141)
Other		**1,417**	156	**377**	42
Change in working capital					
Inventories		**(6,455)**	(7,524)	**(1,721)**	(2,006)
Trade receivables		**(5,696)**	(17,874)	**(1,519)**	(4,766)
Due from the Government		**(9,149)**	(38,991)	**(2,439)**	(10,398)
Other assets and receivables		**(7,335)**	(517)	**(1,956)**	(138)
Trade and other payables		**5,343**	(1,140)	**1,425**	(304)
Royalties payable		**(8,548)**	10,544	**(2,279)**	2,811
Other changes					
Other assets and receivables		**(1,117)**	(3,204)	**(298)**	(854)
Provisions		**(347)**	(1,597)	**(93)**	(426)
Post-employment benefit obligations		**(2,606)**	(1,140)	**(695)**	(304)
Settlement of income and other taxes	23(a)	**(354,124)**	(233,068)	**(94,433)**	(62,151)
Net cash provided by operating activities		**453,701**	333,607	**120,987**	88,962
Capital expenditures		**(131,766)**	(121,955)	**(35,138)**	(32,521)
Acquisition of affiliates, net of cash acquired		**(8,571)**	(1,152)	**(2,285)**	(307)
Distributions from joint ventures and associates		**1,073**	840	**286**	224
Additional investments in joint ventures and associates		**(401)**	(3,546)	**(106)**	(946)
Dividends from investments in securities		**143**	141	**38**	38
Interest received		**2,942**	1,167	**784**	311
Net investments in securities		**(615)**	(476)	**(164)**	(127)
Net maturities of short-term investments		**5,990**	6,352	**1,597**	1,694
Net cash used in investing activities		**(131,205)**	(118,629)	**(34,988)**	(31,634)
Dividends	29	**(217,500)**	—	**(58,000)**	—
Distributions to the Government	23(a), 29	**—**	(187,849)	**—**	(50,093)
Dividends paid to non-controlling interests		**(902)**	(1,091)	**(240)**	(291)
Interest paid		**(2,748)**	(1,795)	**(733)**	(479)
Proceeds from borrowings		**11,660**	20,245	**3,109**	5,399
Repayments of borrowings		**(11,096)**	(11,321)	**(2,959)**	(3,019)
Net cash used in financing activities		**(220,586)**	(181,811)	**(58,823)**	(48,483)
Net increase in cash and cash equivalents		**101,910**	33,167	**27,176**	8,845
Cash and cash equivalents at beginning of the year		**81,242**	48,075	**21,665**	12,820
Cash and cash equivalents at end of the year		**183,152**	81,242	**48,841**	21,665

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1. General information

The Saudi Arabian Oil Company (the "Company"), with headquarters located in Dhahran, Kingdom of Saudi Arabia (the "Kingdom"), is engaged in the exploration, production, transportation and sale of crude oil and natural gas ("Upstream") and the manufacture, transportation and sale of petroleum products ("Downstream"). The Company was formed on November 13, 1988 by Royal Decree No. M/8; which approved the Company's original Articles; however, its history dates back to May 29, 1933 when the Kingdom granted a concession to the Company's predecessor the right to, among other things, explore the Kingdom for hydrocarbons.

Effective January 1, 2018, Council of Minister's Resolution No. 180, dated 1/4/1439H (December 19, 2017) converted the Company to a Saudi Joint Stock Company with new Bylaws. The Company's 1988 Articles were cancelled as of January 1, 2018 pursuant to Royal Decree No. M/36, dated 2/4/1439H (December 20, 2017). The Company's share capital, previously stated capital, has been set at Saudi Riyal ("SAR") 60,000, is fully paid and is divided into 200 billion ordinary shares with equal voting rights without par value. The Company's Commercial Registration Number is 2052101150.

On December 20, 2017, Royal Decree No. M/37 dated 2/4/1439H was issued approving the Hydrocarbons Law which applies to the Kingdom's hydrocarbons and hydrocarbon operations. The Hydrocarbons Law came into effect on December 22, 2017 upon publication in the Official Gazette. Under the Hydrocarbons Law, all hydrocarbon deposits, hydrocarbons and hydrocarbon resources are the property of the Kingdom until ownership is transferred at the well head or when extracted. Further, the Hydrocarbons Law codified the Kingdom's sole authority to set the maximum amount of hydrocarbons production by the Company and the maximum sustainable capacity that the Company must maintain.

All natural resources within the Kingdom, including hydrocarbons, are owned by the Kingdom. Through a concession in 1933, the Saudi Arabian Government (the "Government") granted the Company the exclusive right to explore, develop and produce the Kingdom's hydrocarbon resources, except in certain areas. As of December 24, 2017, the Company's original concession agreement was replaced and superseded by an amended concession agreement (the "Concession Agreement") which provides the Company the exclusive right to explore, drill, prospect, appraise, develop, extract, recover, and produce hydrocarbons in the concession area. The Company is also provided the exclusive right to market and distribute hydrocarbons, petroleum products and liquid petroleum gas in the Kingdom along with the non-exclusive right to manufacture, refine, and treat production and to market, sell, transport and export such production.

The initial term of the Concession Agreement is for 40 years which shall be extended by the Government for 20 years unless the Company did not satisfy certain conditions commensurate with its current operating practices. In addition, the Concession Agreement may be amended and extended for an additional 40 years beyond the original 60-year period subject to the Company and the Government agreeing on the terms of such extension.

The consolidated financial statements of the Company and its subsidiaries (together "Saudi Aramco") were approved by the Board of Directors on March 14, 2019.

2. Summary of significant accounting policies, judgments and estimates

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The consolidated financial statements provide comparative information in respect of the previous period.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board ("IASB"). Amounts and balances relating to Shari'a compliant financial instruments of the Company, its subsidiaries and investments are disclosed separately. All other relevant amounts and balances relate to conventional financial instruments.

The consolidated financial statements have been prepared under the historical cost convention except for certain items measured at fair value which are, primarily, investments in securities, derivatives and certain trade receivables. The accounting policies that follow have been consistently applied to all years presented, unless otherwise stated.

(b) Significant accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to exercise judgment in the process of applying Saudi Aramco's accounting policies and in the use of certain critical accounting estimates and assumptions concerning the future. Management has made various judgments that may significantly impact the valuation and presentation of assets and liabilities. In addition, judgment is also applied when undertaking the estimation procedures that are necessary to calculate assets, liabilities, revenue and expenses. Accounting estimates, by definition, may not equal the related actual results and are subject to change based on experience and new information. The areas requiring the most significant judgments, estimates and assumptions in the preparation of the consolidated financial statements are: accounting for interest in subsidiaries, joint arrangements and associates, recoverability of asset carrying amounts, taxation, provisions, post-retirement obligations and determination of functional currency and are set out in the individual accounting policies below.

(c) New or amended standards

(i) Saudi Aramco adopted for the first time the following IASB pronouncements that are endorsed in the Kingdom, which are effective for annual periods beginning on or after January 1, 2018:

1) IFRS 9, Financial Instruments

IFRS 9 as issued by the IASB, replaces IAS 39, Financial Instruments: Recognition and Measurement, that relates to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. In accordance with the transition provisions in IFRS 9, comparative figures have not been restated. There was no material impact on opening retained earnings at January 1, 2018 as a result of the adoption of IFRS 9. The following changes were made to the disclosures and classifications of financial assets:

- Investments in debt securities and certain equity securities with a fair value of SAR 14,086 at January 1, 2018, which were classified as available-for-sale under IAS 39, are now classified as fair value through other comprehensive income ("FVOCI"). For debt securities, Saudi Aramco's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments in debt securities were solely principal and interest. Fair value gains and losses on investments in debt securities will be subsequently reclassified to net income on derecognition. Investments in certain equity securities are not held for trading, instead they are held for medium to long term strategic purposes. For these investments, Saudi Aramco has made an irrevocable election to present subsequent changes in fair values in other comprehensive income. Fair value gains and losses on these investments in equity securities will not be subsequently reclassified to net income on derecognition.
- Equity investments in mutual funds of SAR 4,208 at January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss ("FVPL"). These investments do not meet the criteria to be classified at FVOCI in accordance with IFRS 9. There was no material impact of this change on the opening retained earnings at January 1, 2018.

- Except for certain trade receivables subsequently measured at FVPL, all other financial assets meet the criteria for amortized cost measurement under IFRS 9 and accordingly there is no change in respect of classification and measurement of these other financial assets.

Further, the new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under IAS 39. For trade receivables, Saudi Aramco applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of receivables. Debt securities at FVOCI and other financial assets are considered low risk and thus the impairment provision is determined as 12-month expected credit losses. Based on assessments undertaken by Saudi Aramco, there is no material increase in the loss allowance.

2) IFRS 15, Revenue from Contracts with Customers

IFRS 15 as issued by the IASB replaces IAS 18, Revenue, and establishes a five-step model to account for revenue arising from contracts with customers. Saudi Aramco has adopted IFRS 15 in accordance with the transition provisions in IFRS 15 and the new rules have been adopted retrospectively. Other than the changes to certain line items on the Consolidated Statement of Income and changes to the revenue disclosure (Note 21), adoption of IFRS 15 did not have any impact on the prior periods.

Under IFRS 15, revenue from sales of crude oil and related products is recognized upon the satisfaction of performance obligations which occurs when control transfers to the customer. Control of the products is determined to be transferred to the customer when the title of crude oil and related products passes to the customer which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue contracts for crude and certain related products provide for provisional pricing at the time of shipment with the final pricing based on an average market price for a particular future period. As a result of adopting IFRS 15, the difference between the estimate and the final price is recorded separately as a change in fair value of the related receivable and is disclosed as a separate component of revenue (Note 21).

There are no other standards, amendments and interpretations that had any material impact on the consolidated financial statements.

(ii) The following IASB pronouncement that is endorsed in the Kingdom will become effective for future financial reporting periods and has not been early adopted by Saudi Aramco:

IFRS 16, Leases

IFRS 16, Leases, which was released by the IASB in January 2016, provides a new model for lease accounting in which all leases, other than short-term and small value leases, will be accounted for by the lessee, by the recognition on the Consolidated Balance Sheet of a right-of-use asset and a lease liability, and the subsequent amortization of the right-of-use asset over the lease term. IFRS 16 will supersede IAS 17, Leases, IFRIC 4, Determining whether an Arrangement Contains a Lease, SIC 15, Operating Leases – Incentives and SIC – 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. Saudi Aramco will apply IFRS 16 from its mandatory adoption date of January 1, 2019.

At December 31, 2018, Saudi Aramco has non-cancellable operating lease commitments of SAR 35,565 (Note 24). Of these commitments, approximately SAR 1,894 relate to short-term leases and SAR 134 to low value leases and other items which will be recognized on a straight-line basis as expense in the Consolidated Statement of Income. For the remaining lease commitments, Saudi Aramco expects to recognize right-of-use assets and lease liabilities of approximately SAR 27,389 (after adjustments for prepayments and accrued lease payments recognized at December 31, 2018) in its Consolidated Balance Sheet at January 1, 2019. There will be no significant impact on the net assets at January 1, 2019, and net current assets will be SAR 5,992 lower due to the presentation of a portion of the liability as a current liability.

Saudi Aramco's activities as a lessor are not material and hence Saudi Aramco does not expect any significant impact on its consolidated financial statements. However, some additional disclosures will be required from next year.

Saudi Aramco will apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards, amendments and interpretations that are not yet effective that are expected to have a material impact in the current or future reporting periods or on foreseeable future transactions.

(d) Principles of consolidation and equity accounting

(i) Subsidiaries

The consolidated financial statements reflect the assets, liabilities and operations of the Company and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Intercompany balances and transactions, including unrealized profits and losses arising from intragroup transactions, have been eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies with those used by the Company.

The acquisition method of accounting is used to account for business combinations. The cost of the acquisition of a subsidiary is measured as the fair value of the assets given and liabilities incurred or assumed at the date of the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date the assets and liabilities are exchanged, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the acquired share of the identifiable net assets is recorded as goodwill. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to Saudi Aramco. Acquisition related costs are expensed as incurred.

Saudi Aramco recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statements of Income and Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Balance Sheet, respectively.

If the business combination is achieved in stages, the acquisition date carrying value of the previously held equity interest is re-measured to fair value at the acquisition date with any gains or losses arising from such remeasurement recognized in net income.

(ii) Joint arrangements

Under IFRS 11, Joint Arrangements, an arrangement in which two or more parties have joint control, is a joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Saudi Aramco has both joint operations and joint ventures.

1) Joint operations

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of a joint arrangement. In relation to its interests in joint operations, Saudi Aramco recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

2) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Saudi Aramco's share of results of its joint ventures is recognized within net income, while its share of post-acquisition movements in other comprehensive income is recognized within other comprehensive income. The cumulative effect of these changes is adjusted against the carrying amount of Saudi Aramco's investments in joint ventures, which is presented separately in the Consolidated Balance Sheet. When Saudi Aramco's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured non-current receivables, Saudi Aramco does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Gains and losses on transactions between Saudi Aramco and joint ventures not realized through a sale to a third party are eliminated to the extent of Saudi Aramco's interest in the joint ventures. Where necessary, adjustments are made to the financial statements of joint ventures to align their accounting policies with those used by Saudi Aramco.

Saudi Aramco's investments in joint ventures includes, when applicable, goodwill identified on acquisition, net of any accumulated impairment loss. Goodwill represents the excess of the cost of an acquisition over the fair value of Saudi Aramco's share of the net identifiable assets of the acquired joint venture at the date of acquisition. Dilution gains and losses arising from investments in joint ventures are recognized in net income.

Dividends received or receivable from joint ventures are recognized as a reduction in the carrying amount of the investment.

(iii) Associates

Associates are entities over which Saudi Aramco has significant influence. Significant influence is the power to participate in financial and operating policy decisions but with no control or joint control over those policies and is generally reflected by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The accounting policies for joint ventures detailed in Note 2(d)(ii)(2) above are also applied by Saudi Aramco to its associates.

Significant accounting judgments and estimates

Judgments are applied in the determination of whether control, joint control or significant influence is present with respect to investments in subsidiaries, joint arrangements or associates, respectively. For control, judgement is applied when determining if an entity is controlled by voting rights, potential voting rights or other rights granted through contractual arrangements and includes considering an entity's purpose and design. For joint control, judgement is applied when assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties by taking decisions about relevant activities through unanimous consent of the parties sharing control. For joint control, judgement is also applied as to whether the joint arrangement is classified as a joint venture or joint operation taking into account specific facts and circumstances, such as the purpose and design of the arrangement, including with respect to its output, its relationship to the parties and its source of cash flows. For significant influence, judgement is applied in its determination by assessing factors such as representation on the board of directors, participation in policy-making processes, material transactions with the entity, interchange of managerial personnel and provision of essential technical information. Refer to Notes 7, 33, and 34.

(e) Intangible assets

Intangible assets other than exploration and evaluation costs (see Note 2(f) below) consist primarily of brands and trademarks, franchise/customer relationships, computer software and patents and intellectual property. If acquired in a business combination, these intangible assets are recognized at their fair value at the date of acquisition and, if acquired separately, these intangible assets are recognized at cost. All of these intangible assets are subsequently amortized on a straight-line basis over their estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of these intangible assets:

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

Amortization is recorded in depreciation and amortization in the Consolidated Statement of Income.

(f) Exploration and evaluation

Exploration and evaluation costs are recorded under the successful efforts method. Under the successful efforts method, geological and geophysical costs are recognized as an expense when incurred and exploration costs associated with exploratory wells are initially capitalized on the Company's Consolidated Balance Sheet as an intangible asset until the drilling of the well is complete and the results have been evaluated. If potential commercial quantities of hydrocarbons are found these costs continue to be capitalized subject to further appraisal activities that would determine the commercial viability and technical feasibility of the reserves. If potentially commercial quantities of hydrocarbons have not been found, and no alternative use of the well is determined, the previously capitalized costs are evaluated for derecognition or tested for impairment.

Exploratory wells remain capitalized while additional appraisal drilling on the potential oil and/or gas field is performed or while optimum development plans are established. All such capitalized costs are not subject to amortization, but at each reporting date are subject to regular technical and management review to confirm the continued intent to develop, or otherwise extract value from the well. Where such intent no longer exists, the costs are immediately written off to net income. Capitalized exploratory expenditures are not subject to amortization but, at each reporting date, are subject to review for impairment indicators.

(All amounts in millions unless otherwise stated)

When proved reserves of hydrocarbons are determined and there is a firm plan for development approved by management, the relevant capitalized costs are transferred to property, plant and equipment.

(g) Property, plant and equipment

Property, plant and equipment is stated on the Company's Consolidated Balance Sheet at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the construction and/or acquisition of the asset. Land and construction-in-progress are not depreciated. When a construction-in-progress asset is deemed ready for use as intended by management, depreciation commences.

Subsequent expenditures including major renovations are included in an asset's carrying amount, or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to Saudi Aramco and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognized. All other repair and maintenance expenditures are expensed as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met (Note 2(s)).

Where the life of expected hydrocarbon reserves substantially exceeds the economic or technical lives of the underlying assets, the straight-line method of depreciation is used on a field by field basis. The unit of production method is used for fields where the expected reserve life is approximately equal to or less than the estimated useful lives of the underlying assets. Depletion rates are calculated on the basis of a group of wells or fields with similar characteristics based on proved developed reserves. The estimation of expected reserve lives reflects management's assessment of proved developed reserves and the related depletion strategy on a field by field basis. Depreciation expense on all other assets is calculated using the straight-line method to allocate the cost less residual values over the estimated useful lives. Depreciation expense is recorded in the Consolidated Statement of Income.

Depreciation expense is calculated after determining an estimate of an asset's expected useful life and the expected residual value at the end of its useful life. The useful lives and residual values are determined by management at the time the asset is initially recognized and reviewed annually for appropriateness or when events or conditions occur that impact capitalized costs, hydrocarbon reserves or estimated useful lives.

The following table sets forth estimated useful lives, in years, of the principal groups of depreciable assets:

Crude oil facilities:	
Pipelines and storage tanks	12 to 23
Drilling and construction equipment	5 to 25
Oil and gas properties	15 to 30
Marine equipment	13 to 30
Refinery and petrochemical facilities	5 to 40
Gas & NGL facilities	2 to 30
General service plant:	
Permanent buildings	20 to 40
Roads and walkways	10 to 20
Aircraft	8 to 17
Autos and trucks	3 to 20
Office furniture and equipment	6 to 8
Computer equipment	3 to 5

Net gains and losses on disposals of depreciable assets are recognized in net income. Property, plant and equipment held under a finance lease is depreciated over the life of the asset or the lease term, if shorter.

(h) Impairment of non-financial assets

Saudi Aramco assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired except that goodwill is reviewed for impairment on an annual basis. If an indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use ("VIU"). The fair value less costs of disposal calculation is based on either, post-tax discounted cash flow models or available data from binding arm's length sales transactions for similar assets, or observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a post-tax risk adjusted discounted cash flow model. The use of post-tax discount rates in determining value in use does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

Impairment losses are recognized as a component of net income. If, in a subsequent period, the amount of a non-goodwill impairment loss decreases, a reversal of the previously recognized impairment loss is recognized in net income.

Significant accounting judgments and estimates

Impairment tests are undertaken on the basis of the smallest identifiable group of assets (cash generating unit), or individual assets, for which there are largely independent cash inflows. The key assumptions used to determine the different cash generating units involves significant judgment from management.

For the purposes of determining whether impairment of oil, gas and refining assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating future cash flows for its VIU calculations are forecasted future oil and gas prices, expected production volumes, future operating and development costs, refining margins and changes to the discount rate used for the discounted cash flow model. There is an inherent uncertainty over forecasted information and assumptions. Changes in these assumptions and forecasts could impact the recoverable amounts of assets and any calculated impairment and reversals thereof.

(i) Leases

Agreements under which Saudi Aramco makes payments to third parties in return for the right to use an asset for a period of time are accounted for as leases. Leases that transfer substantially all the risks and rewards of ownership to Saudi Aramco are recorded at commencement as finance leases. Such leases are capitalized on the Consolidated Balance Sheet at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The interest element of leases is recorded in net income using the effective interest method over the term of the lease. Contingent rentals are recognized as an expense in the periods in which they are incurred. All other leases are recorded as operating leases and the associated costs are recorded in net income on a straight-line basis over the period of the lease.

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

(j) Investments and other financial assets

(i) Classification

Consequent to the adoption of IFRS 9 from January 1, 2018 management determines the classification of its financial assets based on the business model for managing the financial assets and the contractual terms of the cash flows. Saudi Aramco's financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

For financial assets measured at fair value, gains and losses will either be recorded in net income or other comprehensive income. For investments in debt securities, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether Saudi Aramco has made an irrevocable election at the time of initial recognition, due to the strategic nature of these investments, to account for such equity investments at fair value through other comprehensive income. Saudi Aramco reclassifies debt securities when and only when its business model for managing those assets changes. Certain revenue contracts provide for provisional pricing at the time of shipment with the final pricing based on an average market price for a particular future period. Such trade receivables are measured at fair value because the contractual cash flows are not solely payment of principal and interest. All other trade receivables meet the criteria for amortized cost measurement under IFRS 9.

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognized on the trade-date, which is the date on which Saudi Aramco commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Saudi Aramco has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, Saudi Aramco measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed as a component of net income. Saudi Aramco subsequently measures all equity investments at fair value.

Equity investments:

Where Saudi Aramco has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to net income following the derecognition of the investment. Dividends from such investments continue to be recognized as a component of net income when Saudi Aramco's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized as a component of net income.

Debt securities:

Subsequent measurement of debt securities depends on Saudi Aramco's business model for managing the asset and the cash flow characteristics of the asset. Debt securities are classified into the following three measurement categories:

1. **Amortized cost:**

   Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost using the effective interest method. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized as a component of net income when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

2. Fair value through other comprehensive income ("FVOCI"):

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses which are recognized as a component of net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to net income. Interest income from these financial assets is included in finance income using the effective interest rate method.

3. Fair value through profit or loss ("FVPL"):

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized as a component of net income in the period in which it arises. Financial assets at FVPL are included in non-current assets unless management intends to dispose of the asset within 12 months from the end of the reporting period, in which case, the asset is included in current assets.

Other financial assets:

Other financial assets are classified into the following categories:

1. Amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a financial asset that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized as a component of net income when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate.

Financial assets at amortized cost comprise cash and cash equivalents, short-term investments, other assets and receivables, due from the Government and trade receivables other than those subsequently measured at fair value through profit or loss.

2. Fair value through profit or loss:

Trade receivables related to contracts with provisional pricing arrangements are subsequently measured at FVPL.

(iv) Impairment

Saudi Aramco assesses on a forward looking basis the expected credit losses associated with debt securities carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, Saudi Aramco applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(v) Accounting Policies applied until December 31, 2017

In accordance with the transition provisions in IFRS 9, comparative figures have not been restated. As a result, the comparative information provided continues to be accounted for in accordance with Saudi Aramco's previous accounting policy.

1. Financial assets

Management determined the classification of its financial assets based on the purpose for which the financial assets are initially acquired. At the end of each reporting period, Saudi Aramco assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Regular purchases and sales of financial assets are recognized on the trade-date which is the date Saudi Aramco commits to purchase or sell the asset.

2. Classification of financial assets:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or, upon initial recognition, are designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term if held for trading or for a longer term if initially designated at fair value through profit or loss. Transaction costs are expensed as incurred as a component of net income. Financial assets at fair value through profit or loss are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using, primarily, discounted cash flow valuation techniques. Changes in the fair value of financial assets at fair value through profit or loss are recognized as a component of net income.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets, less provision for impairment, if any. Such provisions are recognized as a component of net income.

Impairment of loans and receivables is established when there is objective evidence that Saudi Aramco will not be able to collect all amounts due according to the original terms. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Loans and receivables comprise cash and cash equivalents, short-term investments, trade receivables, due from the Government and certain other assets and receivables.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting period, in which case, the asset is included in current assets. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition.

Quoted investments are stated at fair value based on current bid prices. If the market for this type of financial asset is not active or the securities are unlisted, Saudi Aramco establishes fair value by using discounted cash flow valuation techniques. Changes in the fair value of available-for-sale financial assets are recognized through other comprehensive income. Dividends and interest income are recognized within finance and other income.

A significant or prolonged decline in the fair value of an equity security classified as an available-for-sale financial asset below its cost is considered as an indicator that the security is impaired. Impairment losses recognized in net income related to equity securities are not reversed.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized through other comprehensive income are included as a component of net income.

(k) Derivative instruments and hedging activities

Saudi Aramco's use of derivative instruments does not have a material effect on its financial position or results of operations.

(i) Derivative instruments classified as held for trading

Saudi Aramco uses commodity swap derivative financial instruments to manage exposure to price fluctuations which arise on purchase and sale transactions for physical deliveries of various refined products. The swaps are initially recognized, and subsequently re-measured at fair value and recorded as an asset, when the fair value is positive, or liability, when the fair value is negative, under trade receivables or trade and other payables in the Consolidated Balance Sheet, respectively.

The fair value of the swap is determined in accordance with Saudi Aramco's derivative valuation policy by reference to the traded price of that instrument on the relevant exchange or over-the-counter markets at the Consolidated Balance Sheet date. The gain or loss from the changes in the fair value of the swap from its value at inception is recognized in net income.

(ii) Derivative instruments designated as hedges

Saudi Aramco uses interest rate swaps and currency forward contracts to manage its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments, designated as either fair value or cash flow hedges, are purchased from counter parties of high credit standing and are initially recognized, and subsequently remeasured, at fair value.

At the inception of the hedging transaction, Saudi Aramco documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategy for undertaking the hedge transaction. An assessment is also documented of whether the derivative financial instrument used in a hedging transaction is highly effective in offsetting changes in fair value or cash flows of the hedged item, both at the inception of the hedge and on an ongoing basis.

The fair value of a derivative financial instrument used for hedging purposes is classified as a current asset or liability when the remaining maturity of the derivative is less than 12 months; otherwise, it is classified as a non-current asset or liability.

1) Fair value hedges

A fair value hedge is a hedge of the fair value of a recognized asset or liability or firm commitment and comprises currency forward contracts. The gain or loss from the changes in the fair value of the currency forward contracts is recognized in net income, together with changes in the fair value of the hedged item.

2) Cash flow hedges

A cash flow hedge is a hedge of a particular risk associated with an asset or liability or a highly probable forecast transaction. Any gain or loss relating to the effective portion of changes in the fair value of interest rate swap contracts is recognized in other comprehensive income, with the ineffective portion recognized immediately in net income.

Gains and losses deferred through other comprehensive income are reclassified to net income at the time the hedged item affects net income. However, when a hedged item is a forecast transaction resulting in the recognition of a non-financial asset or non-financial liability, the gains and losses deferred through other comprehensive income, if any, are included in the initial cost or other carrying amount of the asset or liability.

When a hedging instrument expires, any cumulative gain or loss deferred through other comprehensive income will remain until the forecast transaction is recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred through other comprehensive income is immediately reclassified to net income.

(l) Income tax

Income tax expense for the period comprises current and deferred tax expense. Income tax expense is recognized in net income, except to the extent that it relates to items recognized in other comprehensive income. In this case, the related income tax is also recognized in other comprehensive income.

Current income tax expense is calculated primarily on the basis of the Saudi Arabian Income Tax Law of 2004 and its amendments (the "Tax Law"). In addition, income tax expense results from taxable income generated by foreign subsidiaries.

Deferred income tax is provided in full, using the liability method at tax rates enacted or substantively enacted at the end of the reporting period and expected to apply when the related deferred income tax is realized or settled on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In estimating such tax consequences, consideration is given to expected future events. Deferred income tax is not provided on initial recognition of an asset or liability in a transaction, other than a business combination that, at the time of the transaction, does not affect either the accounting profit or the taxable profit.

Deferred income tax assets are recognized where future recovery is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred income tax is not provided for taxes on possible future distributions of retained earnings of subsidiaries where the timing of the distribution can be controlled and it is probable that the retained earnings will be substantially reinvested by the entities.

Significant accounting judgments and estimates

Saudi Aramco establishes provisions, based on reasonable estimates, for potential claims by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as different interpretations of tax regulations by the taxable entity and the responsible tax authority and the outcome of previous negotiations. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in net income in the period in which the change occurs. Deferred income tax assets are recognized only to the extent it is considered probable that those assets are recoverable. This includes an assessment of when those assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable income available to offset the assets when they do reverse. This requires assumptions regarding future profitability. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred income tax assets as well as in the amounts recognized in net income in the period in which the change occurs.

Detailed taxation information, including current expense and deferred income tax assets and liabilities, is presented in Note 8.

(m) Inventories

Inventories are stated at the lower of cost or estimated net realizable value. Cost comprises all expenses to bring the inventory to their present location and condition and, for hydrocarbon inventories, is determined using the first-in, first-out ("FIFO") method. For materials and supplies inventories, cost is determined using the weighted average method less an allowance for disposal of obsolete and/or surplus materials and supplies. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(n) Due from the Government

The Government compensates the Company through price equalization (Note 2(w)) and for the past due trade receivables of specified Government and semi-Government customers to whom the Company supplies specified products and services.

Revenue on sales to these specified Government and semi-Government customers is recognized when Saudi Aramco has transferred the significant risks and rewards of ownership which occurs when product is physically transferred. Once receivables from these customers are past due, these trade receivables are reclassified as a Due from the Government current receivable.

Implementing regulations issued by the Government on December 28, 2017 allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government. Balance due from the Government at December 31 represents amounts to be settled through offset against tax payments.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and in banks together with all highly liquid investments purchased with original maturities of three months or less.

(p) Financial liabilities

Financial liabilities are classified as financial liabilities at FVPL or as financial liabilities measured at amortized cost, as appropriate. Management determines the classification of its financial liabilities at initial recognition.

Saudi Aramco's financial liabilities are:

(i) Financial liabilities at FVPL

Derivative financial liabilities are categorized as held for trading unless they are designated as hedges (Note 2(k)). Derivative financial liabilities held for trading are included in current liabilities under trade and other payables with gains or losses recognized in net income.

(ii) Financial liabilities at amortized cost

Financial liabilities other than financial liabilities at FVPL are classified as financial liabilities measured at amortized cost net of transaction costs. Such financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Discounting is omitted when the effect is immaterial. Financial liabilities measured at amortized cost are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

Financial liabilities at amortized cost include trade and other payables and borrowings. Financial liabilities are disclosed separately from financial assets in the Consolidated Balance Sheet unless there is a right to offset.

(q) Borrowing costs

Any difference between borrowing proceeds and the redemption value is recognized as finance costs in the Consolidated Statement of Income over the term of the borrowing using the effective interest method.

Borrowing costs are expensed as incurred except for those costs directly attributable to the acquisition, construction or production of a qualifying asset which are capitalized as part of the cost of that asset until the asset is complete for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for intended use or sale.

(r) Post-employment benefit plans

(i) Pension plans

Funded pension plans are non-contributory plans for the majority of employees and are generally funded by payments by Saudi Aramco to independent trusts or other separate entities. Assets held by the independent trusts and other separate entities are held at their fair value. Valuations of both funded and unfunded plans are performed annually by independent actuaries using the projected unit credit method. The valuations take into account employees' years of service, average or final pensionable remuneration, and are discounted to their present value using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related defined benefit obligation.

The amount recognized in the Consolidated Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The periodic pension cost included in operating costs in the Consolidated Statement of Income in respect of defined benefit pension plans primarily represents the increase in the actuarially assessed present value of the obligation for pension benefits based on employee service during the year and the net interest on the net defined benefit liability or asset. Net interest is calculated by multiplying the defined benefit liability and plan assets by the discount rate applied to each plan at the beginning of each year, amended for changes to the defined benefit liability and plan assets as a result of benefit payments or contributions.

Past service costs, representing plan amendments, are recognized immediately as pension costs in the Consolidated Statement of Income, regardless of the remaining vesting period.

Remeasurements representing actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, and the actual returns on plan assets excluding interest on plan assets, are credited or charged to equity, net of tax, through other comprehensive income.

For defined contribution plans where benefits depend solely on the amount contributed to or due to the employee's account and the returns earned from the investment of those contributions, plan cost is the amount contributed by or due from Saudi Aramco and is recognized as an expense in the Consolidated Statement of Income.

(ii) Other post-employment benefits

Saudi Aramco provides certain post-employment healthcare, life insurance and other benefits to retirees and certain former employees. The entitlement is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. To the extent these plans are not fully funded, a liability is recognized in the Consolidated Balance Sheet. Valuations of benefits are performed by independent actuaries.

Such plans follow the same accounting methodology as used for defined benefit pension plans.

Significant accounting judgments and estimates

The cost of defined benefit pension plans and post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions, which are reviewed annually. Key assumptions include discount rates, future salary increases, future healthcare costs, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Information about amounts reported in respect of defined benefit plans, assumptions applicable to the plans and their sensitivity to changes are presented in Note 18.

(s) Provisions and contingencies

Provisions are liabilities where the timing or amount of future expenditures is uncertain. Provisions are recognized when Saudi Aramco has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are recorded at the best estimate of the present value of the expenditure required to settle the obligation at the end of the reporting period. Amounts are discounted, unless the effect of discounting is immaterial, using an appropriate discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense within finance costs in the Consolidated Statement of Income.

Saudi Aramco records a provision and a corresponding asset for decommissioning activities in Upstream operations for well plugging and abandonment activities. The obligation for a well is recognized when it is drilled. Decommissioning provisions associated with Downstream facilities are generally not recognized, as the potential obligations cannot be measured, given their indeterminate settlement dates. The liability for decommissioning obligations will be recognized in the period when sufficient information becomes available to estimate a range of potential settlement dates. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows. The value of the obligation is added to the carrying amount of the related asset and amortized over the useful life of the asset. The increase in the provision due to the passage of time is recognized as finance costs in the Consolidated Statement of Income. Changes in future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows are recognized as a change in provision and related asset.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where the inflow of economic benefits is probable.

Significant accounting judgments and estimates

Most of Saudi Aramco's well plugging and abandonment activities are many years into the future with technology and costs constantly changing. Estimates of the amounts of a provision are recognized based on current legal and constructive requirements and cost associated to abandon using existing technologies. Actual costs are uncertain and estimates can vary as a result of changes in the scope of the project and/or relevant laws and regulation. The estimated timing of decommissioning may change due to certain factors, such as reserve life, a decision to terminate operations, or changes in legislation. Changes to estimates related to future expected costs, discount rates and timing may have a material impact on the amounts presented. As a result, significant judgment is applied in the initial recognition and subsequent adjustment of the provision and the capitalized cost associated with decommissioning, plugging and abandonment obligations. Any subsequent adjustments to the provision are made prospectively. Detail on the particular assumptions applied when making certain non-current provisions is included in Note 19.

(t) Foreign currency translation

The USD is the functional currency of the Company and substantially all of its subsidiaries. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign currency monetary assets or liabilities are translated at each reporting date using the prevailing reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized as a component of net income. Non-monetary assets and liabilities, other than those measured at fair value, are translated using the exchange rate at the date of the transactions.

Significant accounting judgments and estimates

The Company has determined that USD is the functional currency as a substantial amount of its products are traded in USD in international markets. However, a substantial amount of costs of the Company are denominated in SAR which has been exchanged at a fixed rate to USD since 1986. A change in the fixed exchange rate could impact the recorded revenue, expenses, assets and liabilities of the Company.

(u) Presentation currency

The consolidated financial statements are presented in SAR. The financial position and results of the operations of the Company, subsidiaries, joint arrangements and associates that have a functional currency which is different from the presentation currency are translated at reporting date exchange rates and the average exchange rates that approximate the cumulative effect of rates prevailing at the transaction dates, respectively. All resulting exchange differences are recognized through other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to the particular foreign operation is recognized in net income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Translations from SAR to USD presented as supplementary information in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows as at and for the years ended December 31, 2018 and 2017, are for convenience and were calculated at the rate of USD 1.00 = SAR 3.75 representing the exchange rate at the Consolidated Balance Sheet dates.

(v) Revenue recognition and sales prices

Revenue from sales of crude oil and related products is recognized upon the satisfaction of performance obligations, which occurs when control transfers to the customer. Control of the products is determined to be transferred to the customer when the title of crude oil and related products passes to the customer, which typically takes place when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue contracts for crude and certain related products provide for provisional pricing at the time of shipment, with final pricing based on the average market price for a particular future period. Revenue on these contracts is recorded based on the estimate of the final price at the time control is transferred to the customer. Any difference between the estimate and the final price is recorded as a change in fair value of the related receivable, as part of revenue, in the Consolidated Statement of Income. Where applicable the transaction price is allocated to the individual performance obligations of a contract based on their relative stand-alone selling prices.

(w) Other income related to sales

The Government compensates the Company through price equalization for revenue directly foregone as a result of the Company's compliance with local regulations governing domestic sales and distribution of certain liquid products. This compensation reflected in these consolidated financial statements, described as supplemental income in the year ended December 31, 2017, is calculated by the Company as the difference between the product's equalization price and the corresponding domestic regulated price, net of Government fees, in accordance with the implementing regulations issued by the Government on December 28, 2017 which were effective from January 1, 2017.

This compensation is recorded as other income related to sales, that is taxable, when Saudi Aramco has transferred to the buyer the significant risks and rewards of ownership which occurs when product is physically transferred. The compensation due from the Government is characterized as a Due from the Government (Note 2(n)) current receivable and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less impairment losses, if any.

The implementing regulations allow the Company to offset any amounts due from the Government against payment of taxes, and in the event of insufficiency of tax balances, offsetting may extend against any other amounts due and payable by the Company to the Government.

(x) Production royalties

Royalties to the Government are calculated based on a progressive scheme applied to crude oil and condensate production. An effective royalty rate is applied to production based on the Company's official selling prices. The effective royalty rate is determined based on a baseline marginal rate of 20% applied to prices up to $70 per barrel, increasing to 40% applied to prices above $70 per barrel and 50% applied to prices above $100 per barrel. All such royalties are accounted for as an expense in the Consolidated Statement of Income and are deductible costs for Government income tax calculations.

(y) Research and development

Development costs that are expected to generate probable future economic benefits are capitalized as intangible assets and amortized over their estimated useful life. All other research and development costs are recognized in net income as incurred.

3. Financial risk management

Saudi Aramco operates internationally but has limited exposure to financial risks. Financial risks include market risk (including foreign currency exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. Financial risk management is carried out primarily by a central treasury department. The adequacy of financial risk management policies is regularly reviewed with consideration of current activities and market conditions on a consolidated basis. Saudi Aramco uses derivative financial instruments with limited complexity to manage certain risk exposures and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Financial risk factors

(i) Market risk

1) **Foreign currency exchange risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

   Saudi Aramco operates internationally but has limited exposure to financial risk due to changes in foreign currency exchange rates as most of the significant transactions are denominated in its functional currency (Note 2(t)), are linked to its functional currency or are hedged. Saudi Aramco's limited foreign currency exchange risk arises from future commercial transactions or recognized assets or liabilities denominated in a currency that is not Saudi Aramco's functional currency. In addition, a substantial amount of costs of Saudi Aramco are denominated in SAR which has been at a fixed rate to USD since 1986. A change in the fixed exchange rate would result in foreign exchange differences being recognized in the consolidated financial statements.

Saudi Aramco engages in hedging activities through the use of currency forward contracts to manage its exchange exposure from significant transactions denominated in a foreign currency. The hedge ratio considers variability in potential outcomes, spot rates, as well as interest rates, and on a transaction by transaction basis can cover up to 100% of the exposure at inception.

The notional amounts of outstanding currency forward contracts designated as hedging instruments are included in Note 26.

2) **Price risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Price risk primarily stems from investments in securities and commodity trading.

a) Investments in securities

Saudi Aramco has limited exposure to price risk with such risk arising, primarily, from investments in securities carried at fair value.

Saudi Aramco regularly reviews its positions in investments in securities considering current and expected future economic trends.

At December 31, 2018 and 2017, a change in fair value due to a movement of 5% in the price of listed equity securities would result in a change in other comprehensive income before income taxes of SAR 366 and SAR 447, respectively.

At December 31, 2018 and 2017, a change in fair value due to a movement of 5% in the unit price of mutual and hedge funds would result in a change in income before income taxes of SAR 209 and SAR 210, respectively.

b) Commodity swaps

Saudi Aramco trades refined, natural gas liquid, and bulk petrochemical products and uses commodity swaps as a means of managing price and timing of risks arising from this trading. In effecting these transactions, Saudi Aramco operates within policies and procedures designed to ensure that risks, including those related to the default of counterparties, are managed within authorized limits. The notional amounts of outstanding commodity swap contracts are included in Note 26.

3) **Interest rate risk**—The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Saudi Aramco is exposed to interest rate risk from changes in interest rates that affect the fair value or future cash flows of financial instruments, principally borrowings, issued at variable and fixed rates. Borrowings issued at variable rates expose Saudi Aramco to cash flow interest rate risk which is partially offset by short-term time deposits and debt securities held at variable rates. Borrowings issued at fixed rates expose Saudi Aramco to fair value interest rate risk. Saudi Aramco may enter into interest rate swap agreements as part of its overall strategy to manage the interest rate risk on its debt.

At December 31, 2018 and 2017, a change of 1% in market interest rates, with all other variables held constant, would result in a net change of SAR 1,125 and SAR 307, respectively, in Saudi Aramco's income before income taxes as a result of the effect of higher or lower market interest rates.

The notional amounts of interest rate swap contracts are included in Note 26.

(ii) Credit risk

Credit risk is the risk that counterparties might not fulfill their contractual payment obligations towards an entity.

Saudi Aramco is exposed to credit risk related to its counterparties not performing or honoring their obligations which would result in financial loss. Credit risk arises from credit exposures on trade receivables as well as from cash and cash equivalents, short-term-investments, debt securities classified as FVOCI, and derivatives with financial institutions. The maximum exposure to credit risk is the carrying value of these assets.

Saudi Aramco's trade receivables arise from a global customer base which limits geographic concentrations of credit risk. Moreover, a credit risk policy is in place to ensure credit limits are extended to creditworthy counterparties and risk mitigation measures are defined and implemented accordingly. Saudi Aramco performs ongoing evaluations of its counterparty's financial standing and takes additional measures to mitigate credit risk when considered appropriate by means of letter of credits, bank guarantees or parent company guarantees.

In addition, the credit policy limits the amount of credit exposure to any individual counterparty based on their credit rating as well as other factors. Moreover, Saudi Aramco's investment policy limits exposure to credit risk arising from investment activities. The policy requires that cash and cash equivalents and short-term investments be invested with a diversified group of financial institutions with acceptable credit ratings. Saudi Aramco ensures that each counterparty is of an acceptable credit quality by relying on quantitative and qualitative measures compiled from internal and third party rating models. At the end of 2018, all of the short-term investments were with financial institutions assigned a long-term credit rating of "BBB+" (2017: "BBB+") or above.

Employee home loans (Note 9(a)) and debt securities measured at FVOCI are generally considered to have low credit risk based on history of default and thus the impairment provision recognized during the year based on the general approach allowed by IFRS 9, where applicable, was substantially limited to 12-month expected losses.

Saudi Aramco applies the simplified approach allowed by IFRS 9 in providing for expected credit losses for trade receivables. The simplified approach uses the lifetime expected loss provision for all trade receivables. Such credit losses have historically been nominal and the loss allowance for trade receivables (Note 12) is not material.

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Saudi Aramco's liquidity risk management includes maintaining sufficient cash and cash equivalents and ensuring the availability of incremental funding through credit facilities (Note 17). Management also monitors and forecasts Saudi Aramco's liquidity requirements based on current and non-current expected cash flows.

Saudi Aramco invests surplus cash in current accounts, time deposits, money market deposits, government repurchase agreements and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to meet forecasted cash flow requirements. Saudi Aramco prioritizes security and liquidity over yield.

Note 17 analyzes Saudi Aramco's borrowings into relevant maturity groupings based on the balances associated with each contractual maturity date at the end of the reporting period.

(b) Capital structure management

Saudi Aramco seeks to maintain a prudent capital structure, comprising of borrowings and Shareholder's equity, to support its capital investment plans and maintain a sustainable, growing dividend profile. Maintaining sufficient financial flexibility is considered strategically important to mitigate industry cyclicality while also enabling the pursuit of organic and inorganic investment opportunities. Borrowings or dividends will result in an adjustment to the Company's capital structure.

(c) Casualty loss risk retention

Saudi Aramco's casualty loss risk strategy includes a risk retention and insurance program, including providing coverage to certain joint arrangements and associates limited to Saudi Aramco's percentage interest in the relevant entity. Current maximum risk retention is SAR 2,118 per loss event (2017: SAR 1,875) and various insurance limits apply, of which the risk retention forms a part. Should a credible loss event occur, the maximum insurance limit above retention is SAR 4,875 (2017: SAR 4,875) per event dependent on the circumstances.

(d) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. Management believes that the fair values of Saudi Aramco's financial assets and liabilities are not materially different from their carrying amounts at the end of the reporting period.

Saudi Aramco measures financial instruments such as derivatives, equity investments classified as FVPL, and equity investments and debt securities classified as FVOCI, at fair value at each balance sheet date. Saudi Aramco uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(All amounts in millions unless otherwise stated)

The following table presents Saudi Aramco's assets and liabilities that are measured and recognized at fair value at the years ended December 31, based on the prescribed fair value measurement hierarchy on a recurring basis. Saudi Aramco did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at December 31.

Assets	Level 1	Level 2	Level 3	Total
2018:				
Investments in securities:				
Equity securities at FVOCI	**7,324**	**—**	**1,293**	**8,617**
Debt securities at FVOCI	**19**	**3,908**	**—**	**3,927**
Equity securities at FVPL		**991**	**4,237**	**5,228**
Trade receivables related to contracts with provisional pricing arrangements	**—**	**—**	**73,509**	**73,509**
	7,343	**4,899**	**79,039**	**91,281**
Other current assets:				
Interest rate swaps	**—**	**191**	**—**	**191**
Commodity swaps	**184**	**2,393**	**—**	**2,577**
Currency forward contracts	**—**	**33**	**—**	**33**
	184	**2,617**	**—**	**2,801**
Total assets	**7,527**	**7,516**	**79,039**	**94,082**
2017:				
Investments in securities:				
Available-for-sale equity investments	8,940	1,085	4,438	14,463
Available-for-sale debt securities	19	3,812	—	3,831
Financial assets at fair value through profit or loss	—	3	845	848
	8,959	4,900	5,283	19,142
Other current assets:				
Interest rate swaps	—	122	—	122
Commodity swaps	—	253	—	253
Currency forward contracts	—	93	—	93
	—	468	—	468
Total assets	8,959	5,368	5,283	19,610

Liabilities	Level 1	Level 2	Level 3	Total
2018:				
Derivative financial liabilities at fair value through profit or loss	**—**	**—**	**—**	**—**
Commodity swaps	**—**	**1,069**	**—**	**1,069**
Currency forward contracts	**—**	**180**	**—**	**180**
Interest rate swaps		**71**	**—**	**71**
	—	**1,320**	**—**	**1,320**
2017:				
Derivative financial liabilities at fair value through profit or loss	—	26	91	117
Commodity swaps	—	544	—	544
Currency forward contracts	—	18	—	18
Interest rate swaps	—	45	—	45
	—	633	91	724

(All amounts in millions unless otherwise stated)

Realized and unrealized gains of SAR 998 from commodity swap financial instruments are recognized in net income for the year ended December 31, 2018 (2017: realized and unrealized losses of SAR 560).

The valuation techniques for Saudi Aramco's investments in securities are described in Note 10. The changes in Level 3 investments in securities for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
January 1	**5,283**	4,301
Net additions	**389**	683
Acquisition	**11**	—
Realized gain/(loss)	**8**	(8)
Net movement in unrealized fair value (loss)/gain	**(161)**	307
December 31	**5,530**	5,283

The movement in trade receivables related to contracts with provisional pricing arrangements mainly relates to sales transactions, net of settlements, made during the period, resulting from contracts with customers. Unrealized fair value movements on these trade receivables are not significant.

4. Operating segments

Saudi Aramco operates in the oil and gas industry within the Kingdom and has interests in refining, petrochemical, distribution, marketing and storage facilities outside of the Kingdom.

Saudi Aramco's operating segments are established on the basis of those components that are evaluated regularly by the CEO, considered to be the Chief Operating Decision Maker. The Chief Operating Decision Maker monitors the operating results of Saudi Aramco's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on revenues, costs and a broad range of key performance indicators in addition to segment profitability.

For management purposes, Saudi Aramco is organized into business units based on the main types of activities. At December 31, 2018, Saudi Aramco had two reportable segments, Upstream and Downstream, with all other supporting functions aggregated into a Corporate segment. Upstream activities include crude oil, natural gas and natural gas liquids exploration, field development and production. Downstream activities include the refining, logistics, power generation, and the marketing of crude oil, petroleum and petrochemical products and related services to international and domestic customers. Corporate activities include primarily supporting services including Human Resources, Finance and IT not allocated to Upstream and Downstream. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

During 2018, the profit measure used by the Chief Operating Decision Maker for making decisions about resource allocation to and performance assessment of the operating segments was changed from net income to earnings before interest and taxes. Further, unrealized profit in inventory is now included as part of eliminations. The prior period results have been presented on a consistent basis.

The accounting policies used by Saudi Aramco in reporting segments internally are the same as those contained in Note 2 of the consolidated financial statements.

(All amounts in millions unless otherwise stated)

Information by segments is as follows:

	Upstream	Downstream	Corporate	Eliminations	Consolidated
2018					
External revenue	**776,233**	**404,575**	**1,329**	**—**	**1,182,137**
Other income related to sales	**37,189**	**115,452**	**—**	**—**	**152,641**
Inter-segment revenue	**288,739**	**32,798**	**256**	**(321,793)**	**—**
Share of results of joint ventures and associates	**(1)**	**(1,274)**	**(140)**	**—**	**(1,415)**
Depreciation and amortization	**(27,495)**	**(11,941)**	**(1,898)**	**—**	**(41,334)**
Dividends and other income	**—**	**1,024**	**1**	**—**	**1,025**
Earnings before interest and taxes	**796,321**	**12,638**	**(12,927)**	**1,983**	**798,015**
Finance income					**2,840**
Finance costs					**(2,959)**
Income before income taxes					**797,896**
Capital expenditures—cash basis	**96,768**	**32,677**	**2,321**	**—**	**131,766**

	Upstream	Downstream	Corporate	Eliminations	Consolidated
2017					
External revenue	574,020	265,253	1,210	—	840,483
Other income related to sales	29,121	121,055	—	—	150,176
Inter-segment revenue	213,493	29,519	—	(243,012)	—
Share of results of joint ventures and associates	(2)	(910)	(44)	—	(956)
Depreciation and amortization	(25,788)	(9,485)	(1,902)	—	(37,175)
Dividends and other income	—	269	83	—	352
Earnings before interest and taxes	574,016	23,297	(12,111)	(2,891)	582,311
Finance income					1,217
Finance costs					(2,090)
Income before income taxes					581,438
Capital expenditures—cash basis	82,508	35,569	3,878	—	121,955

Information by geographical area is as follows:

	In Kingdom	Out of Kingdom	Total
2018			
External revenue	**979,530**	**202,607**	**1,182,137**
Property, plant and equipment, intangible assets, investments in joint ventures and associates	**814,997**	**108,305**	**923,302**
2017			
External revenue	696,477	144,006	840,483
Property, plant and equipment, intangible assets, investments in joint ventures and associates	722,936	79,817	802,753

Sales to external customers by region are based on the location of the Saudi Aramco entity which made the sale.

Property, plant and equipment, intangible assets and investment in joint ventures and associates by region are based on the location of the Saudi Aramco entity holding the assets.

(All amounts in millions unless otherwise stated)

5. Property, plant and equipment

	Crude oil facilities	Refinery and petrochemical facilities	Gas & NGL facilities	General service plant	Construction in progress	Total
Cost						
January 1, 2018	**468,598**	**172,065**	**329,480**	**78,951**	**206,248**	**1,255,342**
Acquisitions (Note 31)	**—**	**9,019**	**—**	**—**	**18,878**	**27,897**
Additions	**2,107**	**3,006**	**264**	**9,124**	**119,402**	**133,903**
Construction completed	**29,829**	**23,669**	**31,470**	**4,177**	**(89,145)**	**—**
Currency translation differences	**—**	**(1,820)**	**—**	**(1)**	**(469)**	**(2,290)**
Transfers	**3,454**	**(586)**	**24**	**(3,114)**	**529**	**307**
Transfer of exploration and evaluation assets	**—**	**—**	**—**	**—**	**2,164**	**2,164**
Retirements and sales	**(707)**	**(120)**	**(97)**	**(655)**	**—**	**(1,579)**
December 31, 2018	**503,281**	**205,233**	**361,141**	**88,482**	**257,607**	**1,415,744**
Accumulated depreciation						
January 1, 2018	**(237,729)**	**(67,323)**	**(147,357)**	**(51,799)**	**—**	**(504,208)**
Additions	**(16,208)**	**(8,269)**	**(12,929)**	**(2,935)**	**—**	**(40,341)**
Currency translation differences	**—**	**848**	**—**	**—**	**—**	**848**
Transfers	**(164)**	**202**	**—**	**404**	**—**	**442**
Retirements and sales	**557**	**104**	**66**	**615**	**—**	**1,342**
December 31, 2018	**(253,544)**	**(74,438)**	**(160,220)**	**(53,715)**	**—**	**(541,917)**
Property, plant and equipment—net, December 31, 2018	**249,737**	**130,795**	**200,921**	**34,767**	**257,607**	**873,827**
Cost						
January 1, 2017	440,119	130,909	306,225	71,888	155,321	1,104,462
Acquisitions (Note 31)	—	33,983	—	—	—	33,983
Additions	3,741	997	486	2,118	109,143	116,485
Construction completed	25,538	2,275	24,277	6,971	(59,061)	—
Currency translation differences	—	3,998	—	1	1,222	5,221
Transfers	(75)	24	(1)	(1,268)	(2,768)	(4,088)
Transfer of exploration and evaluation assets	—	—	—	—	2,504	2,504
Retirements and sales	(725)	(121)	(1,507)	(759)	(113)	(3,225)
December 31, 2017	468,598	172,065	329,480	78,951	206,248	1,255,342
Accumulated depreciation						
January 1, 2017	(222,824)	(58,988)	(136,601)	(50,683)	—	(469,096)
Additions	(15,335)	(6,503)	(11,675)	(2,932)	—	(36,445)
Currency translation differences	—	(1,906)	—	—	—	(1,906)
Transfers	(295)	(25)	(296)	1,083	—	467
Retirements and sales	725	99	1,215	733	—	2,772
December 31, 2017	(237,729)	(67,323)	(147,357)	(51,799)	—	(504,208)
Property, plant and equipment—net, December 31, 2017	230,869	104,742	182,123	27,152	206,248	751,134

(All amounts in millions unless otherwise stated)

Finance lease assets with net book values of SAR 11,912 (2017: SAR 4,250) and SAR 705 (2017: SAR 251) are included in General service plant and Refinery and petrochemical facilities, respectively.

6. Intangible assets

	Exploration and evaluation	Brands and trademarks	Franchise/ customer relationships	Computer software	Other	Total
Cost						
January 1, 2018	**16,008**	**4,931**	**1,318**	**4,101**	**1,589**	**27,947**
Acquisitions (Note 31)	**—**	**—**	**—**	**189**	**289**	**478**
Additions	**8,021**	**—**	**—**	**254**	**80**	**8,355**
Currency translation differences	**—**	**(104)**	**(55)**	**—**	**(7)**	**(166)**
Transfers	**—**	**—**	**—**	**(234)**	**208**	**(26)**
Transfer of exploration and evaluation assets	**(2,164)**	**—**	**—**	**—**	**—**	**(2,164)**
Write-offs	**(2,949)**	**—**	**—**	**—**	**(2)**	**(2,951)**
December 31, 2018	**18,916**	**4,827**	**1,263**	**4,310**	**2,157**	**31,473**
Accumulated amortization:						
January 1, 2018	**—**	**(660)**	**(557)**	**(2,351)**	**(33)**	**(3,601)**
Additions	**—**	**(408)**	**(184)**	**(261)**	**(140)**	**(993)**
Currency translation differences	**—**	**24**	**26**	**—**	**—**	**50**
Transfers	**—**	**(2)**	**—**	**71**	**(102)**	**(33)**
December 31, 2018	**—**	**(1,046)**	**(715)**	**(2,541)**	**(275)**	**(4,577)**
Intangible assets—net, December 31, 2018	**18,916**	**3,781**	**548**	**1,769**	**1,882**	**26,896**
Cost						
January 1, 2017	11,258	2,330	1,233	3,086	581	18,488
Acquisitions (Note 31)	—	2,438	—	439	1,008	3,885
Additions	12,393	—	—	393	—	12,786
Currency translation differences	—	283	148	—	—	431
Transfers	3,016	(120)	(63)	183	—	3,016
Transfer of exploration and evaluation assets	(2,504)	—	—	—	—	(2,504)
Write-offs	(8,155)	—	—	—	—	(8,155)
December 31, 2017	16,008	4,931	1,318	4,101	1,589	27,947
Accumulated amortization						
January 1, 2017	—	(513)	(263)	(2,112)	—	(2,888)
Additions	—	(302)	(168)	(227)	(33)	(730)
Currency translation differences	—	(58)	(63)	—	—	(121)
Transfers	—	213	(63)	(12)	—	138
December 31, 2017	—	(660)	(557)	(2,351)	(33)	(3,601)
Intangible assets—net, December 31, 2017	16,008	4,271	761	1,750	1,556	24,346

Other intangible assets include right of use assets of SAR 882 (2017: SAR 811), patents and intellectual property of SAR 420 (2017: SAR 368) and goodwill of SAR 580 (2017: SAR 377).

Cash used for exploration and evaluation operating activities in 2018 was SAR 4,977 (2017: SAR 5,203) and expenditures for investing activities were SAR 8,021 (2017: SAR 12,393).

(All amounts in millions unless otherwise stated)

7. Investments in joint ventures and associates

Company	Equity Ownership 2018/ 2017	Principal place of business	Nature of activities	Carrying amount at December 31, 2018	Carrying amount at December 31, 2017
Sadara Chemical Company (“Sadara”)(1)(2)	**65%**	Saudi Arabia	Petrochemical	**11,660**	11,729
ARLANXEO Holding B.V. (“ARLANXEO”)(3)	**Nil / 50%**	Netherlands	Synthetic rubber	**—**	5,419
Rabigh Refining and Petrochemical Company (“Petro Rabigh”)(2)(4)	**37.5%**	Saudi Arabia	Refining/ petrochemical	**2,763**	2,525
Fujian Refining and Petrochemical Company Limited (“FREP”)	**25%**	People’s Republic of China	Refining/ petrochemical	**2,419**	2,477
National Shipping Company of Saudi Arabia (“Bahri”)(4)	**20%**	Saudi Arabia	Global logistics services	**2,129**	2,120
Jubail and Yanbu Electricity and Water Utility Company (“Marafiq”)	**24.8%**	Saudi Arabia	Utilities	**1,831**	1,687
International Maritime Industries (“IMI”)(1)	**50.1%**	Saudi Arabia	Maritime	**425**	146
Sinopec SenMei (Fujian) Petroleum Company Limited (“SSPC”)	**22.5%**	People’s Republic of China	Marketing/ petrochemical	**401**	471
Juniper Ventures of Texas LLP (“Juniper”)(1)	**60% / Nil**	United States	Marketing	**331**	—
First Coast Energy LLP	**50%**	United States	Marketing	**263**	298
S-Oil TOTAL Lubricants Limited	**50%**	South Korea	Lubricants production/sale	**147**	156
Saudi Arabian Industrial Investment Company (“IIC”)	**25%**	Saudi Arabia	Investment	**116**	145
GCC Electrical Equipment Testing Lab (“GCC Lab”)	**20%**	Saudi Arabia	Inspection	**63**	67
Star Enterprises LLC (“Star”)	**50%**	United States	Pension Administration	**27**	33
Pan Arabian Program Management Company (“PAPMCS”)	**50% / Nil**	Saudi Arabia	Engineering services	**4**	—
				22,579	27,273

(1) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint venture/associate does not qualify as a subsidiary and has not been consolidated.
(2) The Company has provided guarantees as described in Note 25.
(3) As a result of the transaction described in Note 31(c)(i), on December 31, 2018, ARLANXEO became a wholly owned subsidiary of the Company.
(4) Listed company.

(All amounts in millions unless otherwise stated)

The components of the change in the investments in joint ventures and associates for the years ended December 31, 2018 and 2017 are as follows:

	Joint Ventures		Associates	
	2018	**2017**	**2018**	**2017**
January 1	**12,216**	29,564	**15,057**	13,936
Share of results of joint ventures and associates	**(2,608)**	(2,079)	**1,193**	1,123
Additional investment	**2,531**	5,349	**368**	317
Investment in joint venture (Note 31(a))	**331**	—	**—**	—
Derecognition of investment in ARLANXEO (Note 31(c)(i))	**—**	—	**(4,943)**	—
Derecognition of investment in Motiva (Note 31(c)(ii))	**—**	(21,086)	**—**	—
Distributions	**(75)**	(116)	**(998)**	(724)
Change in elimination of profit in inventory	**(23)**	569	**(80)**	(39)
Share of other comprehensive income (losses)	**53**	15	**(443)**	444
December 31	**12,425**	12,216	**10,154**	15,057

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in Saudi Aramco's financial statements at December 31, 2018 are set out below:

Summarized Balance Sheet
At December 31, 2018

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
Current assets:						
Cash and cash equivalents	1,384	—	3,184	4,035	4,189	12,792
Other	7,931	—	15,904	5,104	6,503	35,442
Total current assets	9,315	—	19,088	9,139	10,692	48,234
Non-current assets	72,422	—	52,178	10,851	42,019	177,470
Current liabilities:						
Financial liabilities (excluding trade and other payables)	3,525	—	13,898	656	2,891	20,970
Other	6,105	—	14,273	2,700	5,850	28,928
Total current liabilities	9,630	—	28,171	3,356	8,741	49,898
Non-current liabilities:						
Financial liabilities (excluding trade and other payables)	48,634	—	33,641	6,806	21,075	110,156
Other	5,280	—	488	154	1,316	7,238
Total non-current liabilities	53,914	—	34,129	6,960	22,391	117,394
Net assets	18,193	—	8,966	9,674	21,579	58,412
Saudi Aramco interest	65%	Nil	37.5%	25%	20%-50.1%	
Saudi Aramco share	11,825	—	3,362	2,419	5,363	22,969
Elimination of profit in inventory	11	—	(388)	—	(2)	(379)
Fair value and other adjustments	(176)	—	(211)	—	376	(11)
Investment balance, December 31	11,660	—	2,763	2,419	5,737	22,579

(All amounts in millions unless otherwise stated)

Summarized Statement of Comprehensive Income
Year ended December 31, 2018

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
Revenue	13,114	14,288	42,165	29,760	34,725	134,052
Depreciation and amortization	3,848	1,429	2,445	1,373	2,254	11,349
Conventional interest income	—	—	296	90	60	446
Interest expense	2,258	146	728	368	626	4,126
Income tax expense	49	135	128	638	285	1,235
Net (loss) income	(4,009)	(98)	1,301	1,609	1,028	(169)
Other comprehensive income (loss)	94	(578)	(15)	(495)	(86)	(1,080)
Total comprehensive (loss) income	(3,915)	(676)	1,286	1,114	942	(1,249)

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

	Conventional financial assets as of December 31, 2018	Conventional financial liabilities as of December 31, 2018	Interest income from conventional financial assets for the year ended December 31, 2018
Sadara	6,765	52,159	—
FREP	4,778	7,463	90
Marafiq	2,906	5,213	26
SSPC	1,155	—	30
IMI	859	124	—
IIC	544	8	—
S-Oil TOTAL Lubricants Limited	251	143	—
GCC Lab	109	—	4
Pan Arabian Program Management Company	38	—	—
Juniper	8	23	—
First Coast Energy LLP	—	585	—
Star	—	—	—

(All amounts in millions unless otherwise stated)

Summarized financial information (100%) for joint ventures and associates and reconciliation with the carrying amount of the investments in Saudi Aramco's financial statements at December 31, 2017 are set out below:

Summarized Balance Sheet
At December 31, 2017

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
Current assets:						
Cash and cash equivalents	506	1,279	2,670	3,311	5,896	13,662
Other	7,583	4,960	9,101	6,352	5,204	33,200
Total current assets	8,089	6,239	11,771	9,663	11,100	46,862
Non-current assets	71,364	7,368	51,829	11,768	43,537	185,866
Current liabilities:						
Financial liabilities (excluding trade and other payables)	2,757	615	3,956	653	1,849	9,830
Other	6,172	2,033	9,161	2,899	6,916	27,181
Total current liabilities	8,929	2,648	13,117	3,552	8,765	37,011
Non-current liabilities:						
Financial liabilities (excluding trade and other payables)	52,084	195	42,473	7,838	24,247	126,837
Other	326	1,436	394	135	1,271	3,562
Total non-current liabilities	52,410	1,631	42,867	7,973	25,518	130,399
Net assets	18,114	9,328	7,616	9,906	20,354	65,318
Saudi Aramco interest	65%	50%	37.5%	25%	20%-50.1%	
Saudi Aramco share	11,774	4,664	2,856	2,477	4,733	26,504
Elimination of profit in inventory	34	—	(308)	—	(2)	(276)
Fair value and other adjustments	(79)	755	(23)	—	392	1,045
Investment balance, December 31	11,729	5,419	2,525	2,477	5,123	27,273

Summarized Statement of Comprehensive Income
Year ended December 31, 2017

	Sadara	ARLANXEO	Petro Rabigh	FREP	Other	Total
Revenue	8,434	13,676	24,686	27,401	77,540	151,737
Depreciation and amortization	3,146	1,271	1,826	1,433	3,278	10,954
Conventional Interest income	4	—	79	116	64	263
Interest expense	2,036	113	540	476	931	4,096
Income tax expense	8	150	—	945	492	1,595
Net (loss) income	(4,841)	(8)	686	2,854	3,312	2,003
Other comprehensive (loss) income	(4)	536	—	—	108	640
Total comprehensive (loss) income	(4,845)	528	686	2,854	3,420	2,643

(All amounts in millions unless otherwise stated)

Conventional financial assets, financial liabilities and interest income (100%) of entities not listed on the Saudi Stock Exchange and included above, are as follows:

	Conventional financial assets as of December 31, 2017	Conventional financial liabilities as of December 31, 2017	Interest income from conventional financial assets for the year ended December 31, 2017
Sadara	3,555	46,459	—
FREP	6,311	11,299	—
ARLANXEO	1,703	2,130	—
Marafiq	2,055	9,836	41
IIC	596	38	4
IMI	375	11	—
S-Oil TOTAL Lubricants Limited	266	146	—
GCC Lab	146	—	4
First Coast Energy LLP	26	645	—

Saudi Aramco's share of the fair value of the associates listed in their respective national stock exchanges at December 31 together with their carrying value at those dates is as follows:

	Fair value		Carrying value	
	2018	**2017**	**2018**	**2017**
Petro Rabigh	**6,268**	5,401	**2,763**	2,525
Bahri	**2,630**	2,479	**2,129**	2,120

8. Income taxes

(a) Kingdom income tax rates

Effective January 1, 2018, the income tax rate for the Company's sales, exchange or conversion of natural gas, its liquids and gas condensates, including sulfur and other products, was reduced to 20%. At January 1, 2018, deferred tax assets, net of deferred tax liabilities, were increased by SAR 3,785 to reflect the new income tax rate of which SAR 3,904 was recognized as a reduction of income taxes in the Consolidated Statement of Income and SAR 119 was recognized as a loss in the Consolidated Statement of Comprehensive Income.

Effective January 1, 2017, the income tax rate of the Company decreased from 85% to 50%. As of January 1, 2017, net deferred tax assets were reduced by SAR 24,133 to reflect the new income tax rate of which SAR 10,579 was recognized in the Consolidated Statement of Income and SAR 13,554 was recognized in the Consolidated Statement of Comprehensive Income. Saudi Arabian income tax expense is based on taxable income less allowable expenses as set forth in the Tax Law.

Effective January 1, 2017, the Company's direct and indirect investments in shares of resident capital companies became subject to the Tax Law to the extent of the Company's ownership. Previously, the Company's investments in those entities was subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). During 2018, GAZT released implementing guidelines with respect to those resident capital companies in which the Company holds direct or indirect ownership converting from zakat paying entities to income tax paying entities to the extent of the Company's ownership.

(All amounts in millions unless otherwise stated)

The reconciliation of applicable tax charge at statutory tax rates to taxation charge is as follows:

	2018	2017
Income before income taxes	**797,896**	581,438
Income taxes at the Kingdom's statutory tax rates	**387,937**	290,719
Tax effect of:		
Impact of new income tax rate on net deferred tax assets	**(3,904)**	10,579
Impact of change from zakat to income tax on investments in shares of resident capital companies	**1,282**	—
Income not subject to tax at statutory rates and other	**(3,937)**	(4,479)
	381,378	296,819

(b) Income tax expense

	2018	2017
Current income tax—Kingdom	**365,415**	262,296
Current income tax—Foreign	**349**	1,415
Deferred income tax—Kingdom:		
Impact of change in income tax rate	**(3,904)**	10,579
Charge for the period	**19,830**	23,205
Deferred income tax—Foreign	**(312)**	(676)
	381,378	296,819

Saudi Aramco paid foreign taxes of SAR 605 and SAR 1,052 for the years ended December 31, 2018 and 2017, respectively.

Income tax expense recorded through other comprehensive income was SAR 5,863 for the year ended December 31, 2018 (2017: SAR 17,167).

(c) Income tax obligation to the Government

	2018	2017
January 1	**57,679**	28,541
Provided during the year	**365,415**	262,296
Payments during the year (Note 29)	**(180,119)**	(172,753)
Settlements of due from the Government (Note 23(a))	**(167,752)**	(56,197)
Other settlements	**(5,648)**	(4,208)
December 31	**69,575**	57,679

(All amounts in millions unless otherwise stated)

(d) Deferred income taxes

	2018	2017
Deferred income tax assets:		
Kingdom	**8,946**	13,542
U.S. Federal and State	**14**	27
Other foreign	**906**	37
	9,866	13,606
Deferred income tax liabilities:		
Kingdom	**18,637**	31
U.S. Federal and State	**2,234**	2,430
Other foreign	**3,006**	3,848
	23,877	6,309
Net deferred income tax (liabilities) assets	**(14,011)**	7,297

The gross movement of the net deferred income tax position is as follows:

	2018	2017
January 1	**7,297**	58,339
Current period charge to income	**(15,614)**	(33,108)
Adjustments to equity—Other reserves	**(5,863)**	(17,167)
Other adjustments	**169**	(767)
December 31	**(14,011)**	7,297

	2018	2017
Deferred income tax to be (settled)/recovered after more than 12 months	**(14,011)**	1,259
Deferred income tax to be recovered within 12 months	**—**	6,038
Net deferred income tax (liabilities) assets	**(14,011)**	7,297

(All amounts in millions unless otherwise stated)

The movement in deferred income tax assets/(liabilities) for the year is as follows:

	Post-employment benefit obligations	Investments in joint ventures	Undistributed earnings	Provisions and other	Loss carry-forward	Property plant and equipment and intangibles	Fair value of available-for-sale financial assets	Investments in securities at FVOCI	Total
January 1, 2017									
Deferred tax assets	39,675	—	—	14,840	3,087	11,572	(4,666)	—	64,508
Deferred tax liabilities	—	(6,659)	(717)	(1,462)	2,669	—	—	—	(6,169)
	39,675	(6,659)	(717)	13,378	5,756	11,572	(4,666)	—	58,339
Recognized during the year									
Impact of new income tax rate	(15,475)	—	—	(5,814)	—	(4,765)	1,921	—	(24,133)
Current period (charges) credits to income	(992)	(67)	(168)	4,717	1,585	(27,604)	—	—	(22,529)
Other reserves credits (charges)	(3,797)	—	—	(39)	—	—	223	—	(3,613)
Other adjustments	—	—	—	(767)	—	—	—	—	(767)
	(20,264)	(67)	(168)	(1,903)	1,585	(32,369)	2,144	—	(51,042)
December 31, 2017									
Deferred tax assets	19,411	—	—	12,554	4,960	(20,797)	(2,522)	—	13,606
Deferred tax liabilities	—	(6,726)	(885)	(1,079)	2,381	—	—	—	(6,309)
	19,411	(6,726)	(885)	11,475	7,341	(20,797)	(2,522)	—	7,297
Recognized during the year									
Reclassification	**—**	**—**	**—**	**—**	**—**	**—**	**2,522**	**(2,522)**	**—**
Impact of new income tax rate	**(119)**	**—**	**—**	**(538)**	**—**	**4,442**	**—**	**—**	**3,785**
Current period (charges) credits to income	**(1,404)**	**3,094**	**105**	**(2,267)**	**433**	**(19,479)**	**—**	**—**	**(19,518)**
Other reserves credits (charges)	**(6,636)**	**—**	**—**	**—**	**—**	**—**	**—**	**892**	**(5,744)**
Other adjustments	**—**	**—**	**—**	**169**	**—**	**—**	**—**	**—**	**169**
	(8,159)	**3,094**	**105**	**(2,636)**	**433**	**(15,037)**	**2,522**	**(1,630)**	**(21,308)**
December 31, 2018									
Deferred tax assets	**1,873**	**—**	**—**	**1,256**	**6,737**	**—**	**—**	**—**	**9,866**
Deferred tax liabilities	**9,379**	**(3,632)**	**(780)**	**7,583**	**1,037**	**(35,834)**	**—**	**(1,630)**	**(23,877)**
	11,252	**(3,632)**	**(780)**	**8,839**	**7,774**	**(35,834)**	**—**	**(1,630)**	**(14,011)**

On December 22, 2017, amendments to the U.S. Federal Income Tax Law were enacted which, among other changes, reduced the top U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. To reflect the lower tax rate, net deferred tax liabilities at December 31, 2017 were reduced by SAR 1,307 with a corresponding benefit to tax expense.

On December 19, 2017, South Korea enacted a 2018 tax reform bill which, among other changes, increased the top corporate tax rate from 24.2% to 27.5% effective January 1, 2018. To reflect the higher income tax rate, net deferred tax liabilities at December 31, 2017 were increased by SAR 303, with a corresponding increase in tax expense.

A deferred income tax liability has not been recognized with regard to the undistributed earnings of certain subsidiaries which are considered to be permanently reinvested in their respective businesses. Such earnings would be taxed only upon distribution. The cumulative amount of the undistributed earnings of such subsidiaries is SAR 31,922 and SAR 50,652 at December 31, 2018 and 2017, respectively, and the unrecognized deferred income tax liability is SAR 3,547 and SAR 3,737 at December 31, 2018 and 2017, respectively.

(All amounts in millions unless otherwise stated)

(e) Tax assessments

The Company and its subsidiaries and affiliates are subject to tax review and audit in tax jurisdictions where they operate. In July 2018, the Company and its wholly owned domestic affiliates were notified that the Saudi Arabian income tax submissions for all years up to and including the year ended December 31, 2017 were accepted as filed.

For the Company's other domestic affiliates and international subsidiaries and affiliates, examinations of tax returns for certain prior tax years had not been completed as of December 31, 2018, and the Company is not aware of any significant claims. Therefore, no provision for any additional income tax liability has been made in the consolidated financial statements.

9. Other assets and receivables

	2018	**2017**
Non-current:		
Home loans	**5,023**	4,735
Home ownership construction	**4,088**	2,886
Loans to joint venture and associate (Note 30(b))	**2,777**	4,652
Finance lease receivable from associate (Note 30(b))	**452**	465
Derivative assets	**191**	119
Other	**596**	1,262
	13,127	14,119
Current:		
Employee and other receivables	**3,557**	1,196
Prepaid expenses	**2,984**	1,015
Derivative assets	**2,610**	346
Tax receivables	**2,347**	358
Home loans	**750**	718
Investments in securities (Note 10)	**558**	270
Rig mobilization fees	**398**	1,261
Interest receivable	**171**	273
Assets held for sale	**81**	235
Receivables from joint venture and associates (Note 30(b))	**71**	33
Other	**248**	176
	13,775	5,881

(All amounts in millions unless otherwise stated)

Home loans

The home ownership programs provide subsidized non-interest bearing loans to Saudi Arabian employees. Loans are repayable through payroll deductions and are net of associated subsidies. Any balance remaining upon the death, permanent disability or termination of an employee under the Chronic Medical Condition Program is forgiven. An analysis of the home loans balance at December 31 is as follows:

	2018	**2017**
Gross amounts receivable	**8,470**	7,907
Less:		
Discount	**(1,868)**	(1,494)
Allowance for doubtful home loans	**(480)**	(593)
Subsidies	**(349)**	(367)
Net amounts receivable	**5,773**	5,453
Current	**(750)**	(718)
Non-current	**5,023**	4,735

10. Investments in securities

	2018	**2017**
January 1	**19,142**	17,670
Acquisitions	**11**	—
Net additions	**490**	506
Net unrealized fair value (loss) gain	**(1,871)**	949
Net unrealized foreign currency gain	**—**	17
December 31	**17,772**	19,142
Current (Note 9)	**(558)**	(270)
Non-current	**17,214**	18,872

Net additions include unsettled transactions of SAR (125) at December 31, 2018 (2017: SAR 30). Investments in securities are carried at fair value.

(All amounts in millions unless otherwise stated)

The components of Investments in securities are as follows:

	2018	
	Percentage ownership	**Carrying amount as of December 31**
Equity investments classified as FVOCI:		
Equity investments—listed securities:		
Saudi Electricity Company ("SEC")	**6.9%**	**4,369**
Showa Shell Sekiyu K.K. ("Showa Shell")	**15.1%**	**2,955**
Equity investments—unlisted securities:		
Arab Petroleum Pipeline Company ("Sumed")	**15.0%**	**824**
Industrialization & Energy Services Company ("TAQA")	**4.6%**	**315**
Daehan Oil Pipeline Corporation ("Daehan")	**8.9%**	**154**
Investments in debt securities classified as FVOCI:		
U.S. Dollar debt securities with fixed interest rates ranging from 0.7% to 8.8% and maturity dates between January 2019 and February 2051		**3,338**
U.S. Dollar debt securities with variable interest rates and maturity dates between January 2019 and October 2068		**589**
		12,544
Equity investments classified as FVPL:		
Listed securities—mutual and hedge funds		**4,189**
Unlisted securities		**1,039**
		17,772

	2017	
	Percentage ownership	**Carrying amount as of December 31**
Available-for-sale financial assets:		
Equity investments—listed securities:		
Saudi Electricity Company ("SEC")	6.9%	6,071
Showa Shell Sekiyu K.K. ("Showa Shell")	14.9%	2,869
Mutual and hedge funds		4,208
Equity investments—unlisted securities:		
Arab Petroleum Pipeline Company ("Sumed")	15.0%	907
Industrialization & Energy Services Company ("TAQA")	4.6%	247
Daehan Oil Pipeline Corporation ("Daehan")	8.9%	161
Investments in debt securities:		
U.S. Dollar debt securities with fixed interest rates ranging from 0.6% to 9.8% and maturity dates between January 2018 and February 2048		3,334
U.S. Dollar debt securities with variable interest rates and maturity dates between March 2018 and October 2062		497
		18,294
Financial assets at fair value through profit or loss—unlisted securities		848
		19,142

Equity investments designated at FVOCI are not held for trading. Instead they are held for medium to long-term strategic purposes. Accordingly, management has elected to designate these equity investments at FVOCI as recognizing short-term fluctuations in these investments' fair value in net income would not be consistent with Saudi Aramco's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

(All amounts in millions unless otherwise stated)

The fair value of Sumed is based on expected cash flows discounted using a rate based on market interest rates and a risk premium specific to the unlisted security which was 10.6% and 9.8% for the years ended December 31, 2018 and 2017, respectively. The fair value of TAQA is based on an earnings growth factor for unlisted equity securities from market information for similar types of companies. The fair value of Daehan is determined using discounted cash flow analysis based on the risk adjusted yield.

The maximum exposure to credit risk at the reporting date of the investments in debt securities is the fair value. To limit credit risk, Saudi Aramco's investment policy requires that these securities be diversified. Credit ratings for debt securities held at December 31, 2018 range from AAA to BB (2017: AAA to BB) as set out by internationally recognized credit rating agencies.

11. Inventories

	2018	**2017**
Crude oil, refined products and chemicals	**37,241**	28,130
Materials and supplies—net	**6,130**	5,735
Natural gas liquids and other	**209**	148
	43,580	34,013

The carrying amount of materials and supplies are shown net of an allowance for obsolete and surplus materials with movement as follows:

	2018	**2017**
Balance, January 1	**1,911**	1,733
Additions to the allowance	**177**	178
Balance, December 31	**2,088**	1,911

12. Trade receivables

Trade receivables from export and local sales are denominated primarily in USD and SAR, respectively.

The components of trade receivables at December 31 are as follows:

	2018	**2017**
Arising from export and local sales at international prices	**81,662**	78,129
Arising from local sales at Kingdom regulated prices	**12,995**	9,619
	94,657	87,748
Less: Allowances arising from local sales at Kingdom regulated prices	**(839)**	(856)
	93,818	86,892

Trade receivables relating to certain contracts with provisional pricing arrangements are measured at fair value. The fair value was calculated using forward curves and future prices. These trade receivables are classified as level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk in the fair value calculation.

As described in Note 2(n), the Government through the Ministry of Finance provided a guarantee to the Company in the event that certain Government and semi-Government agencies are unable to settle within the terms agreed with the Company.

(All amounts in millions unless otherwise stated)

The movement of the allowance for trade receivables related to past due sales is as follows:

	2018	2017
January 1	**856**	818
Net movement in allowance	**(17)**	38
December 31	**839**	856

13. Due from the Government

	2018	2017
Amounts due from other income related to sales (Note 2(w))	**35,268**	38,717
Amounts due under Government Guarantee (Note 2(n))	**12,872**	274
Note 30(b)	**48,140**	38,991

14. Short-term investments

	2018	2017
South Korean Won time deposits	**154**	5,999
SAR time deposits	**40**	80
USD time deposits	**—**	105
	194	6,184

15. Cash and cash equivalents

	2018	2017
Cash at bank and in hand	**31,015**	21,058
USD time deposits	**146,886**	53,771
South Korean Won time deposits	**2,206**	1,328
USD murabaha time deposits (Shari'a compliant)	**1,440**	3,677
SAR time deposits	**1,277**	747
SAR repurchase agreements	**328**	661
	183,152	81,242

(All amounts in millions unless otherwise stated)

16. Other reserves

						Share of other comprehensive income (loss) of joint ventures and associates		
	Currency translation adjustment	**Investments in securities at FVOCI**	**Fair value adjustment of available-for-sale financial assets**	**Post-employment benefit obligations**	**Cash flow hedges and other**	**Post-employment benefit obligations and other**	**Foreign currency translation (losses) gains**	**Total**
January 1, 2017	(1,269)	—	1,424	—	(56)	52	(23)	128
Current period change	3,333	—	924	—	(169)	(205)	661	4,544
Remeasurement gain	—	—	—	7,597	—	3	—	7,600
Transfer to retained earnings	—	—	—	11,726	—	(3)	—	11,723
Tax effect	—	—	2,144	(19,311)	—	—	—	(17,167)
Less: amounts related to non-controlling interests	(1,266)	—	—	(12)	120	—	—	(1,158)
December 31, 2017	798	—	4,492	—	(105)	(153)	638	5,670
Reclassified to investments in securities at FVOCI	**—**	**4,492**	**(4,492)**	**—**	**—**	**—**	**—**	**—**
Current period change	**(1,110)**	**(2,547)**	**—**	**—**	**36**	**157**	**(440)**	**(3,904)**
Remeasurement gain	**—**	**82**	**—**	**13,556**	**—**	**—**	**—**	**13,638**
Transfer to retained earnings	**—**	**—**	**—**	**(6,822)**	**—**	**—**	**—**	**(6,822)**
Tax effect	**—**	**892**	**—**	**(6,755)**	**—**	**—**	**—**	**(5,863)**
Less: amounts related to non-controlling interests	**441**	**—**	**—**	**21**	**(5)**	**—**	**—**	**457**
December 31, 2018	**129**	**2,919**	**—**	**—**	**(74)**	**4**	**198**	**3,176**

(All amounts in millions unless otherwise stated)

17. Borrowings

	2018	2017
Non-current:		
Borrowings	**25,934**	29,181
Debentures	**17,014**	20,735
Sukuk (Shari'a compliant)	**12,821**	13,001
Finance lease liabilities	**12,329**	4,641
Other[1]	**3,231**	1,134
	71,329	68,692
Current:		
Short-term bank financing	**23,174**	4,857
Borrowings	**5,906**	3,579
Sukuk (Shari'a compliant)	**180**	157
Finance lease liabilities	**729**	313
	29,989	8,906
Finance costs:		
Conventional borrowing	**1,576**	657
Finance lease liabilities	**480**	500
Shari'a compliant financial instruments	**593**	625
Unwinding of discount (Note 19)	**310**	308
	2,959	2,090

(1) Other borrowings are comprised of loans from non-financial institutions under commercial terms.

Borrowing facilities:

Saudi Aramco has entered into long-term financing arrangements with various lenders. These financing arrangements limit the creation of additional liens and/or financing obligations and certain of these arrangements are secured over certain property, plant and equipment of Saudi Aramco with a carrying value of SAR 39,699 (2017: SAR 39,427). Additionally, certain financing arrangements require compliance by Saudi Aramco with covenants to maintain certain financial and other conditions. Saudi Aramco has complied with these covenants throughout the reporting period.

Details of financing facilities at December 31 are as follows:

		Total facility		Total undrawn	
	Note	2018	2017	2018	2017
Revolving credit facilities	a	**47,677**	48,825	**47,677**	48,825
Sukuk (Shari'a compliant)	b	**39,844**	39,844	**26,250**	26,250
Short-term borrowings	c	**33,840**	24,578	**10,928**	19,721
Commercial and other	d	**28,968**	28,031	**3,263**	4,605
Export credit agencies	e	**13,854**	13,854	**7,500**	7,500
Public Investment Fund	f	**4,594**	4,594	**—**	—
Saudi Industrial Development Fund (Shari'a compliant)	g	**3,248**	1,249	**—**	—
Procurement (Shari'a compliant)	h	**2,528**	2,528	**—**	—
Wakala (Shari'a compliant)	i	**821**	821	**—**	—
		175,374	164,324	**95,618**	106,901

(a) Revolving credit facilities

At December 31, 2018, Saudi Aramco held facilities that total SAR 47,677 (2017: SAR 48,825) consisting of:

(i) The Company maintains USD denominated conventional five-year $6,000 (SAR 22,500) and a $1,000 (SAR 3,750) 364-day facility along with a SAR denominated Islamic murabaha five-year facility in the amount of SAR 7,500 and a SAR 3,750 364-day facility. Both of the five-year facilities were established in March 2015 and are fully available through the end of the fifth year and each can be extended twice for an additional one year period for a maximum of seven years if the extension options are exercised. The credit facility documentation provides for certain limits on the creation of liens on or other security interests in the assets of the Company, and on the sale, lease or transfer, of its assets to third parties.

(ii) Saudi Aramco subsidiaries maintain facilities of SAR 10,177 (2017: SAR 11,325), of which two one-year facilities were acquired with Motiva (Note 31(c)(ii)), a letter of credit facility of $600 (SAR 2,250) and a revolving credit facility of $1,500 (SAR 5,625) for working capital requirements and to support trading activities. Both are expected to be renewed in 2019. The remaining revolving credit facilities are executed with a group of foreign and domestic banks for general corporate purposes and working capital requirements.

(b) Sukuk (Shari'a compliant)

A sukuk is a financial instrument similar to a bond that complies with Islamic financing principles.

(i) On April 10, 2017, Saudi Aramco issued a sukuk for SAR 11,250 at par value as part of a SAR 37,500 program. The sukuk issuance provides a return based on Saudi Arabian Interbank Offered Rate (SAIBOR) plus a pre-determined margin payable semi-annually on April 10 and October 10. The sukuk matures on April 10, 2024. In accordance with the terms of the sukuk, 51% of the proceeds from issuance are invested in mudaraba assets and the remaining 49% are used in a murabaha arrangement.

(ii) On October 9, 2011, Saudi Aramco issued a sukuk for SAR 2,344 at par value with semi-annual payments from December 20, 2014 to December 20, 2025 that provides a rate of return above SAIBOR. The sukuk was structured as Istisnah for pre-construction and Ijara for post-construction of the project.

(c) Short-term borrowings

(i) Bridge loan facility

Saudi Aramco has facility agreements with 19 banks in the amount of SAR 15,000 for bridge loans that are calculated at a market rate plus a margin and are expected to be converted to long-term debt in 2019.

(ii) Saudi Aramco has facilities with a number of banks for short-term borrowing with each borrowing less than one year and drawing interest at market rates plus a margin.

(d) Commercial and other

Saudi Aramco has commercial and other facility agreements with a number of banks. The facilities are primarily repayable in twelve to twenty-three installments on a semi-annual basis from June 15, 2014 to December 20, 2025. Commission is payable on amounts drawn that are mainly calculated at a market rate plus a margin.

(e) Export credit agencies

(i) UK Export Finance facility

On October 11, 2017, Saudi Aramco entered into a USD denominated facility in the amount of $2,000 (SAR 7,500) with five commercial banks which is guaranteed by UK Export Finance. The facility expires during 2019 with repayments on borrowings for five years with a margin based on LIBOR. No drawdowns have been made as of December 31, 2018.

(ii) Other Export Credit Agencies

Saudi Aramco has facility agreements with six export credit agencies. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

(f) Public Investment Fund

Saudi Aramco has facility agreements with the Saudi Public Investment Fund. The facilities are repayable in fourteen to twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

(g) Saudi Industrial Development Fund (Shari'a compliant)

Saudi Aramco has facility agreements with the Saudi Industrial Development Fund. The facilities bear no periodic financial charges and borrowings are repayable in twelve to fourteen unequal installments on a semi-annual basis according to the Hijri calendar commencing from 15 Sha'aban 1437 H (May 22, 2016) to 15 Safar 1452 (June 17, 2030).

(h) Procurement (Shari'a compliant)

Saudi Aramco has Shari'a compliant Islamic Facility Agreements with a number of banks. The facilities are repayable in twenty-three unequal installments on a semi-annual basis commencing December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus margin.

(i) Wakala (Shari'a compliant)

Saudi Aramco has Shari'a compliant Islamic Facility Agreements ("IFAs") with two lenders. The IFAs utilize a wakala financing structure which is an agency arrangement. The facilities are repayable in twenty-three installments on a semi-annual basis from December 20, 2014 to December 20, 2025. Commission is payable on amounts drawn and is calculated at a market rate plus a margin.

At the Consolidated Balance Sheet date, the carrying values of Saudi Aramco's non-current borrowings approximate their fair values.

(All amounts in millions unless otherwise stated)

The carrying amounts of non-current borrowings at December 31 are as follows:

	2018	2017
Commercial and other	**19,428**	20,966
Sukuk (Shari'a compliant)	**13,009**	13,166
Export credit agencies	**4,230**	4,683
Public Investment Fund	**3,341**	3,765
Saudi Industrial Development Fund (Shari'a compliant)	**2,778**	960
Procurement	**1,901**	2,070
Wakala	**615**	672
Other	**3,231**	1,134
	48,533	47,416
Less: unamortized transaction costs	**(461)**	(364)
	48,072	47,052
Debentures denominated in USD	**8,479**	11,333
Debentures denominated in Korean Won	**8,535**	9,402
	65,086	67,787
Less: current portion	**(6,086)**	(3,736)
Non-current portion	**59,000**	64,051

Debentures denominated in USD are issued in public capital markets. Interest rates are fixed and variable with maturities that range between 2027 and 2040.

Debentures denominated in Korean Won are issued in public capital markets. Interest rates range from 1.6% to 3.5% with maturities beginning in 2019 through 2027.

Movements in unamortized transaction costs are as follows:

	2018	2017
January 1	**364**	417
Additional transaction costs incurred	**157**	—
Less: amortization	**(60)**	(53)
December 31	**461**	364

Maturities at carrying values of long-term borrowings are as follows:

	2018	2017
No later than one year	**6,086**	3,736
Later than one year and no later than five years	**26,183**	29,736
Later than five years	**33,278**	34,679
	65,547	68,151

Maturities at contractual values of long-term borrowings are as follows:

	2018	2017
No later than one year	**6,946**	5,006
Later than one year and no later than five years	**28,931**	36,694
Later than five years	**41,163**	40,175
	77,040	81,875

Finance lease liabilities

Covenants of certain long-term financing facilities require Saudi Aramco to maintain defined financial and other conditions. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. The lessor has ownership of the assets during the term of the contract and is responsible for the operation, insurance and maintenance of the assets until termination of the underlying agreements. For certain leases, the lessor shall transfer its rights, title and interest in the assets to the lessee on the last day of the agreements, for others, there are no further obligations on completion of agreements. Performance guarantees are provided by the lessor under the terms of the agreements.

(All amounts in millions unless otherwise stated)

During the year, Saudi Aramco recorded a 25 year finance lease in the amount of SAR 7,965 for capital assets located at a Downstream facility that is under construction. The lease terms include a monthly variable payment with a purchase option at 20 years and an option to extend the lease for another 5 years, at which point ownership transfers to the Company.

The gross finance lease obligation (minimum lease payments) and related future finance charges of finance lease liabilities at December 31 are as follows:

	2018	2017
No later than one year	**1,655**	774
Later than one year and no later than five years	**5,601**	3,035
Later than five years	**15,711**	4,517
	22,967	8,326
Future finance charges on finance leases	**(9,909)**	(3,372)
	13,058	4,954

The present value of finance lease liabilities at December 31 is as follows:

	2018	2017
No later than one year	**729**	313
Later than one year and no later than five years	**2,463**	1,499
Later than five years	**9,866**	3,142
	13,058	4,954

The movement of borrowings was as follows:

	Long-term borrowings	Short-term borrowings	Finance lease liabilities	Total liabilities from financing activities
January 1, 2017	39,836	5,551	7,072	52,459
Cash flows	11,540	(2,170)	(446)	8,924
Non-cash changes:				
Acquisitions (Note 31)	11,366	856	251	12,473
Foreign exchange adjustment	1,271	631	—	1,902
Others	3,774	(11)	(1,923)	1,840
December 31, 2017	67,787	4,857	4,954	77,598
Cash flows	**(3,083)**	**3,986**	**(339)**	**564**
Non-cash changes:				
Acquisitions (Note 31)	**—**	**14,331**	**248**	**14,579**
Finance lease additions (Note 23(b))	**—**	**—**	**8,195**	**8,195**
Foreign exchange adjustment	**(540)**	**—**	**—**	**(540)**
Others	**922**	**—**	**—**	**922**
December 31, 2018	**65,086**	**23,174**	**13,058**	**101,318**

18. Post-employment benefit obligations

Saudi Aramco sponsors several funded and unfunded defined benefit pension plans and other post-employment benefit plans that provide pension, severance, death, medical and/or other benefits to substantially all of its employees primarily in Saudi Arabia. Majority of the defined benefit plans for Saudi Arabia based employees are governed under the Kingdom of Saudi Arabia employment law, Pension Protection Act (PPA) rules of the USA, and Company policies. Benefits to employees of group companies are provided based on local regulations and practices of the respective jurisdiction.

(All amounts in millions unless otherwise stated)

Retirement benefits for defined benefit pension plans are paid, primarily, in the form of lump sum payments upon retirement based on final salary and length of service. Other post-employment benefits such as medical are used to cover retired employees and eligible dependents of retirees for medical services in line with the plan policy documents.

At December 31, the net liability recognized for employee defined benefit plans in the Consolidated Balance Sheet is as follows:

	2018	2017
Pension plans	**(1,080)**	1,111
Medical and other post-employment benefit plans	**24,289**	37,080
Net benefit liability	**23,209**	38,191

The status of Saudi Aramco's pension and other post-employment defined benefit plans is as follows:

	Pension benefits		Other benefits	
	2018	2017	2018	2017
Net benefit obligation by funding:				
Present value of funded obligations	**52,023**	50,454	**78,548**	92,175
Fair value of plan assets	**(58,376)**	(53,726)	**(60,758)**	(61,661)
Benefit (surplus)/deficit	**(6,353)**	(3,272)	**17,790**	30,514
Present value of unfunded obligations	**5,273**	4,383	**6,499**	6,566
Net benefit (asset)/liability	**(1,080)**	1,111	**24,289**	37,080
Change in benefit obligations:				
Benefit obligations, January 1	**54,837**	49,838	**98,741**	93,803
Current service cost	**3,270**	2,865	**2,303**	2,123
Interest cost	**2,010**	2,039	**3,698**	4,005
Past service cost	**(4)**	176	**(1,016)**	187
Remeasurement	**(3,280)**	2,664	**(17,431)**	(158)
Plan participants' contribution	**113**	116	**—**	—
Benefits paid	**(3,330)**	(3,450)	**(1,725)**	(1,639)
Settlements	**—**	(848)	**—**	—
Acquisitions (Note 31)	**3,668**	1,395	**109**	278
Foreign currency translation and other	**12**	42	**368**	142
Benefit obligations, December 31	**57,296**	54,837	**85,047**	98,741
Change in plan assets:				
Fair value of plan assets January 1	**(53,726)**	(44,989)	**(61,661)**	(51,867)
Interest income	**(1,905)**	(1,781)	**(2,378)**	(2,201)
Remeasurement	**195**	(6,173)	**6,960**	(3,930)
Employer contributions	**(3,330)**	(4,247)	**(5,404)**	(5,302)
Benefits paid	**3,330**	3,450	**1,725**	1,639
Settlements	**—**	848	**—**	—
Acquisitions (Note 31)	**(3,023)**	(690)	**—**	—
Foreign currency translation and other	**83**	(144)	**—**	—
Fair value of plan assets, December 31	**(58,376)**	(53,726)	**(60,758)**	(61,661)
Net benefit (asset)/liability at December 31	**(1,080)**	1,111	**24,289**	37,080

(All amounts in millions unless otherwise stated)

The weighted average duration of the pension benefit obligations is 11 years at December 31, 2018 and 12 years at December 31, 2017. The weighted average duration of the other benefit obligations is 19 years at December 31, 2018 and 21 years at December 31, 2017.

The components of net defined benefit cost, before tax, are primarily recognized in producing and manufacturing, and selling, administrative and general expenses in the Consolidated Statement of Income. Remeasurements are included in the Consolidated Statement of Comprehensive Income. Net defined benefit cost and remeasurements for the years ended December 31 are as follows:

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Amounts recognized in net income:				
Current service cost	**3,270**	2,865	**2,303**	2,123
Past service cost	**(4)**	176	**(1,016)**	187
Net interest cost	**105**	258	**1,320**	1,804
Other	**(11)**	—	**360**	—
	3,360	**3,299**	**2,967**	**4,114**
Amounts recognized in other comprehensive income:				
Losses (gains) from changes in demographic assumptions	**83**	439	**(19)**	(2,194)
(Gains) losses from changes in financial assumptions	**(4,316)**	2,246	**(12,578)**	8,936
Losses (gains) from changes in experience adjustments	**953**	(21)	**(4,834)**	(6,900)
Losses (returns) on plan assets (excluding interest income)	**195**	(6,173)	**6,960**	(3,930)
	(3,085)	(3,509)	**(10,471)**	(4,088)
Net defined benefit loss (gain) before income taxes	**275**	(210)	**(7,504)**	26

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, based in part on market conditions. Any changes in these assumptions will impact the carrying amount of the defined benefit obligations.

The significant assumptions used to determine the present value of the defined benefit obligations for the years ended December 31 are as follows:

	Pension benefits		Other benefits	
	2018	**2017**	**2018**	**2017**
Discount rate	**4.3%**	3.5%	**4.4%**	3.7%
Salary growth rate	**5.5%**	5.4%	**—**	—
SAR annual average medical claim cost			**22,350**	20,936
Health care participation rate			**90%**	90%
Assumed health care trend rates:				
Cost-trend rate			**7.0%**	8.0%
Rate to which cost-trend is to decline			**5.0%**	5.0%
Year that the rate reaches the ultimate rate			**2021**	2021

All of the above assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the defined benefit obligations.

Saudi Aramco determines the discount rate used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit plan obligations. In determining the appropriate discount rate, Saudi Aramco considers the interest rates of high-quality corporate bonds in the United States that have terms to maturity approximating the terms of the related defined benefit obligation.

(All amounts in millions unless otherwise stated)

Mortality assumptions are reviewed regularly and set based on actuarial advice in accordance with best practice and statistics, adjusted to reflect the experience and improvements to longevity. Relevant life expectancies are as follows:

	Saudi Plans		U.S. Plans	
Life expectancy at age:	**Male**	**Female**	**Male**	**Female**
50	31.6	34.7	34.2	36.9
60	23.0	25.7	25.0	27.2
60 (currently aged 40)	23.0	25.7	26.8	29.0

The salary growth rate assumption is based on a study of recent years' salary experience and reflects management's outlook for future increases. The annual average medical claim cost assumption is based on medical costs incurred in external medical providers, on behalf of the Company's employees and retirees. The health care participation rate considers the historical participation rate, amongst others, derived from the best available historical data. The assumed health care cost-trend rates reflect Saudi Aramco's historical experience and management's expectations regarding future trends.

The sensitivity of the overall defined benefit obligations to changes in the principal assumptions, keeping all other assumptions constant, is presented below. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

	Change in Assumption	Impact on obligation	2018	2017
Ultimate health care cost-trend rates	Increase by 0.5%	Increase by	**8,066**	10,129
	Decrease by 0.5%	Decrease by	**(7,095)**	(8,801)
Discount rate other benefits	Increase by 0.5%	Decrease by	**(7,463)**	(9,368)
	Decrease by 0.5%	Increase by	**8,569**	10,785
Discount rate pension benefits	Increase by 0.5%	Decrease by	**(3,011)**	(2,914)
	Decrease by 0.5%	Increase by	**3,315**	3,233
Salary growth rate	Increase by 0.5%	Increase by	**1,433**	1,421
	Decrease by 0.5%	Decrease by	**(1,646)**	(1,691)
Annual average medical claim cost	Increase by 5%	Increase by	**3,904**	4,688
	Decrease by 5%	Decrease by	**(3,896)**	(4,680)
Life expectancy	Increase by 1 year	Increase by	**3,371**	5,280
	Decrease by 1 year	Decrease by	**(3,383)**	(5,340)
Health care participation rate	Increase by 5%	Increase by	**1,560**	1,571
	Decrease by 5%	Decrease by	**(1,635)**	(1,676)

Plan assets at December 31 consisted of the following:

	2018	2017
Cash	**3,008**	2,610
Time deposits	**68**	2,107
Equity instruments	**34,433**	42,608
Investment funds	**42,045**	34,097
Bonds	**38,520**	33,178
Sukuk (Shari'a compliant)	**1,060**	787
	119,134	115,387

Plan assets are administered under the oversight of the Company and are held and managed by independent trustees or separate entities, in a manner consistent with fiduciary obligations and principles, acting in the best interest of plan participants. The Company is responsible for the implementation of Board approved investment policy and making investment recommendations to the legal entities holding the plan assets. The investment objective is to maximize investment returns consistent with prudent risk over a long-term investment horizon in order to secure retiree benefits and minimize corporate funding. Plan assets are held separately, solely to pay retiree benefits, with no recourse to Saudi Aramco. Funded Saudi Plans have the right to transfer assets held in excess of the Plan's defined benefit obligation to another funded Saudi Plan. The right to transfer such assets is solely in respect of amounts held in excess of the Plan's defined benefit obligations and solely to Plans with defined benefit obligations exceeding the value of assets held.

(All amounts in millions unless otherwise stated)

Through its post-employment benefit plans, Saudi Aramco is exposed to a number of risks including asset volatility, changes in bond yields, inflation and life expectancy. Investment risk is minimized through diversification of investments among fixed income, equity, and alternative asset classes. Asset allocation is determined by an asset liability modeling study. The target asset allocation is, approximately, 36% (2017: 41%) for equity instruments, 32% (2017: 33%) for debt instruments, and 32% (2017: 26%) for alternative assets. Inflation risk is partially offset by equities inflation and life expectancy risk is borne by Saudi Aramco.

While the Saudi plans are generally not governed by regulatory minimum funding requirements, the funding objective is to reach full funding of the larger plans only. Saudi Aramco meets the obligation of the unfunded plans as they fall due. Benefit payments for the Saudi plans are paid from Corporate cash and are expected to be SAR 4,377 for 2019. Funding for the U.S. plans is recommended by the actuary in order to meet Saudi Aramco's funding strategy to meet benefit plan expenses (estimated at SAR 375 for 2019) using Pension Protection Act (PPA) rules. No discretionary cash contribution to the plans is expected in 2019.

In addition to the above plans, Saudi Aramco maintains defined contribution plans for which Saudi Aramco's legal or constructive obligation for these plans is limited to the contributions. The costs of the defined contribution plans, which are included principally within producing and manufacturing, and selling, administrative and general expenses in the Consolidated Statement of Income, are SAR 926 and SAR 861 for the years ended December 31, 2018 and 2017, respectively.

19. Provisions

	Asset retirement	Environmental	Other	Total
January 1, 2017	8,032	1,088	278	9,398
Revision to estimate	3,129	(303)	—	2,826
Additional provisions	739	270	883	1,892
Unwinding of discount (Note 17)	282	26	—	308
Amounts charged against provisions	(48)	(285)	(94)	(427)
December 31, 2017	12,134	796	1,067	13,997
Revision to estimate	**886**	**—**	**(234)**	**652**
Additional provisions	**418**	**177**	**308**	**903**
Unwinding of discount (Note 17)	**320**	**(10)**	**—**	**310**
Amounts charged against provisions	**(51)**	**(114)**	**(91)**	**(256)**
December 31, 2018	**13,707**	**849**	**1,050**	**15,606**

These provisions consist primarily of asset retirement provisions for the future plugging and abandonment of oil and natural gas wells and the decommissioning of certain Downstream assets. The environmental provision is for the remediation of ground water and soil contamination. Payments to settle these provisions will occur on an ongoing basis and will continue over the lives of the operating assets, which can exceed 50 years for the time when it is necessary to abandon oil and natural gas wells. The amount and timing of settlement in respect of these provisions are uncertain and dependent on various factors that are not always within management's control.

(All amounts in millions unless otherwise stated)

20. Trade and other payables

	2018	2017
Trade payables	**32,897**	28,834
Accrued materials and services	**26,393**	22,560
Amounts due to related parties (Note 30(b))	**6,761**	6,795
Other accruals	**6,235**	3,866
	72,286	62,055

21. Revenue

	2018	2017
Revenue from contracts with customers	**1,180,726**	834,312
Movement between provisional and final prices	**(2,270)**	2,568
Other revenue	**3,681**	3,603
	1,182,137	840,483
Other revenue:		
Services provided to:		
Government agencies (Note 30(a))	**731**	1,076
Third parties	**626**	1,065
Joint ventures and associates (Note 30(a))	**311**	435
Freight	**101**	64
Other	**1,912**	963
	3,681	3,603

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 10 to 90 days from the invoice date depending on specific terms of the contract.

Transaction prices are not adjusted for the time value of money as Saudi Aramco does not expect to have any contracts where the period between the transfer of product to the customer and payment by the customer exceeds one year.

Disaggregation of revenue from contracts with customers

Saudi Aramco's revenue from contracts with customers according to product type and source is as follows:

	2018			
	Upstream	Downstream	Corporate	Total
Crude oil	**707,400**	**8,268**	**—**	**715,668**
Refined and chemical products	**371**	**392,882**	**—**	**393,253**
Natural gas and NGLs	**69,649**	**2,156**	**—**	**71,805**
Revenue from contracts with customers	**777,420**	**403,306**	**—**	**1,180,726**
Movement between provisional and final prices	**(1,756)**	**(514)**	**—**	**(2,270)**
Other revenue	**569**	**1,783**	**1,329**	**3,681**
External revenue	**776,233**	**404,575**	**1,329**	**1,182,137**

	2017			
	Upstream	Downstream	Corporate	Total
Crude oil	512,691	11,382	—	524,073
Refined and chemical products	425	250,897	—	251,322
Natural gas and NGLs	57,805	1,112	—	58,917
Revenue from contracts with customers	570,921	263,391	—	834,312
Movement between provisional and final prices	2,503	65	—	2,568
Other revenue	596	1,797	1,210	3,603
External revenue	574,020	265,253	1,210	840,483

(All amounts in millions unless otherwise stated)

Revenue from contracts with customers includes local sales at Kingdom regulated prices as follows:

	2018	2017
Crude oil	**1,847**	2,646
Refined and chemical products	**55,790**	31,823
Natural gas and NGLs	**16,037**	15,680
	73,674	50,149

22. Finance and other income

	2018	2017
Interest income on time deposits and loans receivable	**2,777**	1,144
Investment income	**63**	73
Gain on disposal of previous equity investment in ARLANXEO (Note 31(c)(i))	**870**	—
Dividend income	**143**	141
Gain on derivative transactions	**4**	202
Other	**8**	9
	3,865	1,569

23. Non-cash and settlement transactions in the Consolidated Statement of Cash Flows

(a) Settlement transactions

In 2017, the Government and the Company established settlement arrangements for other income related to sales and receivables from specified Government and semi-Government agencies. As a result of these arrangements, during the year ended December 31, 2018, an amount due from the Government of SAR 167,752 (2017: SAR 64,410) was settled by offset against income tax obligations of SAR 167,752 (2017: SAR 56,197) (Note 8(c)) and royalty obligations of nil (2017: SAR 8,213). For the year ended December 31, 2017, cash used in financing activities includes settlement of an amount due from the Government of SAR 56,558 through an additional distribution to the Government.

(b) Other transactions

Other investing activities includes SAR 2,498 of subordinated shareholder loans with a joint venture that were converted to equity during 2018 (2017: SAR 1,796 converted to equity), SAR 8,195 of finance leases entered into in 2018 (2017: SAR 3,901), and asset retirement provisions of SAR 1,533 (2017: SAR 3,591).

24. Commitments

(a) Capital commitments

Capital expenditures contracted for but not yet incurred are SAR 90,034 and SAR 101,813 at December 31, 2018 and 2017, respectively.

(b) Operating leases

Saudi Aramco leases drilling rigs, tankers, real estate, transportation equipment, light industrial equipment and office equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. Terms of the agreements vary but typically include provisions allowing cancellation, after notice, within six months. Rates are generally fixed at the contract date. The approximate minimum payments for non-cancellable operating leases at December 31 are:

(All amounts in millions unless otherwise stated)

	2018	2017
No later than one year	**8,078**	7,160
Later than one year and no later than five years	**15,625**	10,347
Later than five years	**11,862**	4,079
	35,565	21,586

(c) International Maritime Industries (“IMI”)

In 2017, Saudi Aramco Development Company (“SADCO”), a wholly owned subsidiary of the Company, and Lamprell plc (“Lamprell”), Bahri and Hyundai Heavy Industries (“HHI”) formed a company, IMI, in which SADCO owns 50.1%, Lamprell owns 20%, Bahri owns 19.9% and HHI owns 10%. The principal activities of IMI are the development, operation, and maintenance of a maritime yard under construction by the Government, as well as, the design, manufacture, maintenance and repair of ships and rigs. The maritime yard will be divided into four main zones and completion of the construction of the individual zones will vary but is expected to be fully completed and operational by 2021. SADCO has committed to fund IMI up to SAR 1,316 through equity contributions. At December 31, 2018, SAR 555 has been drawn down by IMI.

(d) Saudi Aramco Rowan Offshore Drilling Company (“ARO Drilling”)

In 2017, SADCO and Rowan Rex Limited formed a company, ARO Drilling (Note 33), to provide offshore drilling services to the Company. Saudi Aramco has committed to invest SAR 2,494 at December 31, 2017 through equity and shareholder loans, of which, SAR 2,453 (2017: SAR 1,436) has been drawn down. In addition, Saudi Aramco has committed to lease 20 offshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 52,489.

(e) Saudi Aramco Nabors Drilling Company (“SANAD”)

In 2017, SADCO and Nabors International Netherlands BV formed a company, SANAD (Note 33), to provide onshore drilling services to the Company. Saudi Aramco has committed to invest SAR 1,553 at December 31, 2017 through equity and shareholder loans, of which, SAR 1,553 has been drawn down. In addition, Saudi Aramco has committed to lease 50 onshore rigs over a ten-year period beginning in 2019 for an estimated value of SAR 24,263.

(f) Arabian Rig Manufacturing Company (‘‘ARM’’)

In June 2018, SADCO and NOV Downhole Eurasia Limited formed a company, ARM (Note 33), to provide onshore land drilling manufacturing, equipment and services to SANAD and the Middle East and North Africa region at large. Saudi Aramco has committed to invest SAR 225. In addition, SADCO has guaranteed the purchase of 50 onshore rigs over a ten-year period beginning in 2021 for an estimated value of SAR 6,754, and has the option to cancel the onshore rig orders for a maximum financial exposure of SAR 1,358.

(g) Other

(i) In order to comply with a Government directive, Saudi Aramco expects to at a future date sell portions of its equity in Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. (Note 34) through a public offering of shares in Saudi Arabia. Also, in order to comply with a Government directive, Excellent Performance Chemical Company (“EPCC”), a wholly owned subsidiary of Saudi Aramco, expects to at a future date to sell portions of its equity in Sadara (Note 25(a)) through a public offering of shares in Saudi Arabia.

(ii) Saudi Aramco is committed to comply with the Government directive to guarantee that Saudi Aramco Total Refining and Petrochemical Company and Yanbu Aramco Sinopec Refining Company Ltd. shall spend a total of SAR 469 over a ten year period ending December 31, 2025 on social responsibility programs. At December 31, 2018, SAR 420 remains to be spent.

(iii) Saudi Aramco has commitments of SAR 370 (2017: SAR 395) to invest in private equity investments both inside and outside the Kingdom. Such commitments can be called on demand.

(iv) Saudi Aramco has commitments of SAR 56 (2017: SAR 81) to fund additional loans and acquire additional unlisted equity investments of certain small to mid-sized enterprises in the Kingdom. The commitments can be called by the enterprises upon meeting certain conditions.

25. Contingencies

Saudi Aramco has contingent assets and liabilities with respect to certain disputed matters including claims by and against contractors and lawsuits and arbitrations involving a variety of issues. These contingencies arise in the ordinary course of business. It is not anticipated that any material adjustments will result from these contingencies.

Saudi Aramco also has contingent liabilities with respect to the following:

(a) Sadara

In 2011, EPCC and Dow Saudi Arabia Holding B.V. (together to be referred to as the "Founding Shareholders") signed a shareholder agreement with a term of 99 years to construct and operate a fully-integrated chemicals complex at Jubail II Industrial City in Saudi Arabia ("the Project"). Shortly thereafter, the Founding Shareholders formed Sadara to execute the Project. At December 31, 2018, Saudi Aramco has committed to provide a total financing facility of SAR 25,125 (2017: SAR 25,125) comprised of a shareholder loan and share capital commitment of which SAR 25,125 (2017: SAR 25,125) has been drawn down.

In 2013, Sadara entered into definitive agreements with certain export credit agencies and commercial banks for approximately SAR 39,505 (2017: SAR 39,505) of project financing of which approximately SAR 36,566 (2017: SAR 37,875) was outstanding at December 31, 2018. Saudi Aramco provided guarantees for 65% of such facilities, which will be released upon declaration of project completion on or before December 31, 2020. In December 2018, Sadara successfully satisfied all requirements of the Creditor's Reliable Test ("CRT") in its initial attempt. Completion of the CRT is, among other conditions, a key condition to achieve project completion.

In 2013, Sadara conducted a project sukuk issuance in Saudi Arabia for approximately SAR 7,500 with a final maturity in December 2028. Saudi Aramco provided a guarantee for 65% of the sukuk on a limited recourse basis, which may be called at any time, upon the occurrence of certain trigger events prior to the project completion date. The sukuk proceeds were utilized for funding the Project of which approximately SAR 7,178 (2017: SAR 7,500) was outstanding at December 31, 2018.

With respect to Sadara's fuel and feed-stock allocation, the Company has provided two letters of credit to the Ministry of Energy, Industry and Mineral Resources ("MEIM") for SAR 169 (2017: SAR 169) and SAR 225 (2017: SAR 225) to construct epoxy plants and for the development of projects to support conversion industries in the Kingdom, respectively.

(b) Petro Rabigh

In March 2015, the two founding shareholders, the Company and Sumitomo Chemical Co. Ltd., concluded external long-term debt financing arrangements with lenders on behalf of Petro Rabigh for the Rabigh II Project ("the Project") in the amount of SAR 19,380 (2017: SAR 19,380) for which the two shareholders provided guarantees for their equal share of the debt financing until project completion expected in 2019. As of December 31, 2018, SAR 19,380 (2017: SAR 19,174) has been drawn down from these facilities. The external debt financing is expected to provide approximately

(All amounts in millions unless otherwise stated)

54% of total capital requirements of SAR 36,086 (2017: SAR 33,743) for the Project with the remaining financing to be provided by a rights offering of additional shares by Petro Rabigh and other sources.

The founding shareholders also arranged an equity bridge loan of SAR 11,250 (2017: SAR 11,250), with equal share guarantees provided, to meet the equity financing requirements until the equity rights offering. The guarantees will continue until 2019. Petro Rabigh has drawn down SAR 8,888 (2017: SAR 6,555) of this loan as of December 31, 2018.

The Company has provided a standby letter of credit on behalf of Petro Rabigh for SAR 94 (2017: SAR 94) to MEIM as security for construction of certain chemical facilities related to Petro Rabigh.

26. Derivative instruments and hedging activities

Saudi Aramco uses interest rate swap contracts to manage exposure to interest rate risk resulting from borrowings. These hedges are designated as cash flow hedges. Saudi Aramco also engages in hedging activities through the use of currency forward contracts in relation to firm commitments under procurement contracts and transactions for foreign currency payrolls. These hedges are designated as fair value hedges. Further, Saudi Aramco uses short-term commodity swap contracts to manage exposure to price fluctuations.

The notional amounts of currency forward contracts and interest rate swap contracts designated as hedging instruments and outstanding commodity swap contracts at December 31 are as follows:

	2018	2017
Interest rate swaps	**14,404**	10,575
Commodity swap contracts	**24,146**	4,541
Currency forward contracts	**15,821**	4,148
	54,371	19,264

27. Purchases

	2018	2017
Refined products and chemicals	**147,806**	101,270
Crude oil	**41,131**	24,823
	188,937	126,093

Purchases primarily consist of refined products, chemicals and crude oil purchased from third parties for use in Downstream operations and to meet demand for products in the Kingdom when it exceeds Saudi Aramco's production of the relevant product. Saudi Aramco also purchases products from third parties in certain markets where it is more cost effective compared to procuring them from other business units.

28. Employee benefit expense

	2018	2017
Salaries and wages	**29,849**	27,681
Social security costs	**1,804**	1,713
Post-retirement benefits (Note 18):		
Defined benefit plans	**6,327**	7,413
Defined contribution plans	**926**	861
	38,906	37,668

(All amounts in millions unless otherwise stated)

29. Payments to the Government

	2018	2017
Income taxes (Note 8(c))	**180,119**	172,753
Royalties (Note 23(a))	**213,513**	141,233
Dividends (Note 23(a))	**217,500**	187,849
	611,132	501,835

30. Related party transactions

(a) Transactions

	2018	2017
Joint ventures:		
Revenue from sales	**4,159**	10,620
Other revenue (Note 21)	**30**	79
Interest income	**49**	90
Service expenses	**26**	79
Associates:		
Revenue from sales	**39,356**	28,789
Other revenue (Note 21)	**281**	356
Interest income	**113**	98
Purchases	**39,480**	27,844
Service expenses	**195**	244
Government and semi-Government agencies:		
Sales	**50,111**	45,755
Other income related to sales	**152,641**	150,176
Other revenue (Note 21)	**731**	1,076
Purchases	**3,394**	3,266
Service expenses	**323**	611

Goods are purchased and sold according to supply agreements in force. Note 25 includes additional information on loans to a joint venture and an associate.

(b) Balances

	2018	2017
Joint ventures:		
Other assets and receivables (Note 9)	**4**	1,930
Trade receivables	**176**	—
Interest receivable	**—**	203
Associates:		
Other assets and receivables (Note 9)	**3,296**	3,220
Trade receivables	**10,388**	9,355
Trade and other payables (Note 20)	**4,492**	4,166
Government and semi-Government agencies:		
Trade receivables	**8,764**	6,679
Due from the Government (Note 13)	**48,140**	38,991
Trade and other payables (Note 20)	**2,269**	2,629

Sales to and receivables from Government and semi-Government agencies are made on specific terms within the relevant regulatory framework in the Kingdom.

(All amounts in millions unless otherwise stated)

(c) Compensation of key management personnel

Key management personnel of Saudi Aramco included directors and senior executive management. The compensation paid or payable to key management for services is shown below:

	2018	2017
Short-term employee benefits	**57**	50
Post-employment benefits	**27**	66
Other long-term benefits	**10**	8
Termination benefits	**17**	—
	111	124

(d) Other transactions with key management personnel

Other than as set out in Note 30(c), there were no reportable transactions between Saudi Aramco and members of the key management personnel and their close family members during the year ended December 31, 2018 (2017: nil).

31. Investments in affiliates

(a) Investment in joint venture

On December 6, 2018, Saudi Aramco, through its wholly owned subsidiary Motiva Enterprises LLC ("Motiva") acquired a fuel retail business for the amount of SAR 331 which was immediately contributed to the formation of the joint venture, Juniper Ventures of Texas LLC ("Juniper"). Upon completion of the transaction, Motiva owns 60% interest in Juniper which operates certain retail gas stations and convenience stores in the state of Texas, USA. The fair value of the net identifiable assets and liabilities acquired were determined to be equal to the purchase consideration and no goodwill was recorded from the transaction. The carrying value of Juniper has been recorded as an investment in joint ventures (Note 7).

(b) Investment in joint operations

On March 28, 2018, Saudi Aramco, through its wholly owned subsidiary Aramco Overseas Holdings Coöperatief U.A. ("AOHC"), acquired from Petronas Refinery and Petrochemical Corporation Sdn. Bhd. ("PETRONAS") a 50% voting interest in Pengerang Refining Company Sdn. Bhd. ("PRefChem Refining"), and also acquired from Petronas Chemicals Group Berhad, a PETRONAS publicly traded affiliate, a 50% participation in Pengerang Petrochemical Company Sdn. Bhd. ("PRefChem Petrochemical"). The total cash consideration of the transactions amounted to SAR 3,534. In addition, Saudi Aramco has acquired 50% of the subordinated shareholder loan of SAR 791 from PRefChem Petrochemical. PRefChem Refining and PRefChem Petrochemical own certain refinery and steam cracker assets under construction which will be dedicated to the production of refining and petrochemicals products and are scheduled to commence operations in 2019. Saudi Aramco has performed an assessment of the accounting treatment for these investments under IFRS 11, Joint Arrangements, and determined that the two investments are joint operations.

(All amounts in millions unless otherwise stated)

Saudi Aramco has engaged an independent valuer in order to determine the fair values of the assets and liabilities of PRefChem Refining and PRefChem Petrochemical as part of the purchase price allocation, which has not yet been concluded. Based on the initial valuation, the preliminary fair values of the assets and liabilities acquired on March 28, 2018 are as follows:

Construction-in-progress (Note 5)	36,345
Cash and cash equivalents	1,744
Other non-current assets and liabilities, net	(1,541)
Net working capital	(1,212)
Short-term bank financing	(28,136)
Total identifiable net assets at fair value	7,200
Saudi Aramco's 50% share	3,600
Other adjustments	(66)
Purchase consideration	3,534

Acquisition and transaction costs totaled SAR 128 for the period ended December 31, 2018 and were expensed as selling, administrative and general in the Consolidated Statement of Income.

(c) Investment in subsidiaries

(i) ARLANXEO

On December 31, 2018, ARLANXEO, previously a joint venture (Note 7) between Saudi Aramco and LANXESS Deutschland GmbH ("LANXESS"), became a wholly owned subsidiary as a result of Saudi Aramco acquiring the remaining 50% equity interest in ARLANXEO. The initial 50% share acquisition was made on April 1, 2016. The transaction comprised the exchange of the ownership shares of LANXESS, including all the rights and obligations attached to the shares, and cash payments to LANXESS in the amount of SAR 6,106. As a result of this transaction, Saudi Aramco obtained the sole ownership of ARLANXEO, which consists of all the 15 subsidiaries (the full ownership of 14 subsidiaries and a 50% non-wholly owned interest in ARLANXEO-TSRC) that have 20 manufacturing sites in 9 countries. This acquisition is in line with Saudi Aramco's strategy of enabling further diversification of the downstream portfolio, and strengthening its capabilities across the energy and chemicals value chain.

As part of this transaction, Saudi Aramco's equity investment in ARLANXEO of SAR 4,943 (Note 7), previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was re-measured to fair value which resulted in a gain of SAR 870 recognized in the Consolidated Statement of Income for the year ended December 31, 2018.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date.

The preliminary fair values of identifiable assets and liabilities have been determined by management, assisted by an independent valuer, as part of the purchase price allocation process, which has not been concluded.

(All amounts in millions unless otherwise stated)

The following table summarizes the goodwill and the fair values of ARLANXEO's assets and liabilities acquired on December 31, 2018:

Cash and cash equivalents	528
Accounts receivable and other assets	2,983
Inventories	3,112
Property, plant and equipment	9,725
Intangible assets	268
Trade and other payables	(2,396)
Borrowings	(511)
Post-employment benefit obligations and provisions	(1,038)
Other liabilities	(1,074)
Total identifiable net assets at fair value	11,597
Non-controlling interest	(53)
Acquisition date fair value of previously held interest	(5,813)
Fair value of additional interest acquired on December 31, 2018	5,731
Goodwill	210
Other adjustments	165
Net purchase consideration	6,106

Acquisition and transaction costs of SAR 10 for the period ended December 31, 2018 were expensed as selling, administrative and general in the Consolidated Statement of Income.

(ii) Motiva

On May 1, 2017, Motiva, previously a joint venture (Note 7) between Saudi Aramco and Royal Dutch Shell plc ("Shell"), became a wholly owned subsidiary as a result of Shell selling its entire equity interest in Motiva. The transaction comprised the exchange of certain assets and liabilities of Motiva and cash payments to Shell in the amount of SAR 3,341. As a result of the transaction, Saudi Aramco obtained sole ownership of Motiva's remaining assets and liabilities, including the Port Arthur, Texas refinery with a crude capacity of more than 600,000 barrels per day, 24 distribution terminals and Motiva's retained debt. This acquisition is in line with Saudi Aramco's strategy of transforming into a globally integrated oil and gas company.

As part of this transaction, Saudi Aramco's equity investment in Motiva of SAR 21,086 (Note 7), previously classified as Investment in joint ventures and associates in the Consolidated Balance Sheet, was remeasured to fair value which resulted in a loss of SAR 262 recognized as selling, administrative and general expense in the Consolidated Statement of Income for the year ended December 31, 2017.

The transaction was accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair value as of the acquisition date.

(All amounts in millions unless otherwise stated)

The following table summarizes the fair values of Motiva's assets and liabilities acquired on May 1, 2017:

Cash and cash equivalents	2,790
Accounts receivable and other assets	5,063
Inventories	5,434
Property, plant and equipment	33,724
Intangible assets	3,176
Accounts payable and other liabilities	(12,477)
Accounts payable to related parties	(1,114)
Borrowings	(12,431)
Total identifiable net assets at fair value	24,165
Acquisition date fair value of previously held interest	(20,824)
Net purchase consideration	3,341

Acquisition and transaction costs totaled SAR 15 for the period ended December 31, 2017 and were expensed as selling, administrative and general in the Consolidated Statement of Income.

The fair values of identifiable assets and liabilities were determined by management, assisted by an independent valuer, as part of the purchase price allocation process. Saudi Aramco has completed the accounting of the transaction.

Prior to May 1, 2017, Saudi Aramco's share of results in Motiva were reported as share of results of joint ventures and associates in the Consolidated Statement of Income. Beginning on May 1, 2017, Motiva's results of operations were consolidated and the impact on revenue and net income after taxes in the Consolidated Statement of Income for the year ended December 31, 2017 amount to SAR 65,483 and SAR 1,043, respectively.

32. Events after the reporting period

(a) Acquisition of affiliate

On February 14, 2019, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., signed a share purchase agreement to jointly acquire the Tas'helat Marketing Company for SAR 770. Tas'helat operates a network of 270 retail gasoline service stations under the "Sahel" brand name and 71 convenience stores across the Kingdom. The two partners, over the next several years, will invest SAR 2,800 in upgrading the existing retail facilities and rebranding an equal number of the retail gasoline service stations with the two partners' brand names. Closing of the transaction is subject to regulatory approval in the Kingdom.

(b) Cash dividend

The consolidated financial statements do not reflect an ordinary dividend and a special dividend to the Government of SAR 48,750 and SAR 75,000, respectively, which were approved in March 2019. These dividends will be deducted from unappropriated retained earnings in the year ending December 31, 2019.

(All amounts in millions unless otherwise stated)

33. Subsidiaries of Saudi Arabian Oil Company

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018[1]	Conventional financial liabilities as of December 31, 2018[1]	Interest income from conventional financial assets for the year ended December 31, 2018[1]
A. Wholly owned:					
Aramco Asia India Private Limited	Purchasing and other services	India	**6**	**6**	**—**
Aramco Asia Japan K.K.	Purchasing and other services	Japan	**68**	**134**	**1**
Aramco Asia Korea Ltd.	Purchasing and other services	South Korea	**21**	**5**	**—**
Aramco Asia Singapore Pte. Ltd.	Purchasing and other services	Singapore	**12**	**2**	**—**
Aramco Associated Company	Aircraft operations	USA	**69**	**38**	**2**
Aramco Affiliated Services Company	Support services	USA	**1**	**6**	**—**
Aramco Capital Company, LLC	Aircraft leasing	USA	**172**	**—**	**—**
Aurora Capital Holdings LLC	Real estate holdings	USA	**—**	**—**	**—**
Aramco Chemicals Company	Chemicals	Saudi Arabia	**—**	**—**	**—**
Aramco Far East (Beijing) Business Services Co., Ltd.	Petrochemical purchasing/sales and other services	People's Republic of China	**516**	**26**	**9**
Aramco Financial Services Company	Financing	USA	**1**	**11**	**—**
Aramco Gulf Operations Company Ltd.	Production and sale of crude oil	Saudi Arabia	**66**	**1,041**	**15**
Aramco Innovations LLC	Support services	Russia	**6**	**—**	**—**
Aramco International Company Limited	Support services	British Virgin Islands	**—**	**—**	**—**
Aramco Overseas Company Azerbaijan	Support services	Azerbaijan	**—**	**—**	**—**
Aramco Overseas Company B.V.	Purchasing and other services	Netherlands	**12,068**	**2,513**	**181**
Aramco Overseas Company Spain, S.L.	Personnel and other support services	Spain	**—**	**—**	**—**
Aramco Overseas Company UK, Limited	Personnel and other support services	United Kingdom	**7**	**16**	**—**
Aramco Overseas Malaysia SDN. BHD	Personnel and other support services	Malaysia	**2**	**5**	**—**
Aramco Partnerships Company	Support services	USA	**—**	**—**	**—**
Aramco Performance Materials LLC	Petrochemical manufacture and sales	USA	**5**	**4**	**—**
Aramco Services Company	Purchasing, engineering and other services	USA	**433**	**245**	**5**

(All amounts in millions unless otherwise stated)

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018[1]	Conventional financial liabilities as of December 31, 2018[1]	Interest income from conventional financial assets for the year ended December 31, 2018[1]
Aramco Trading Singapore PTE-LTD	Marketing and sales support	Singapore	**143**	**640**	**1**
Bolanter Corporation N.V.	Crude oil storage	Curacao	**32**	**—**	**4**
Briar Rose Ventures LLC	Real estate holdings	USA	**—**	**—**	**—**
Canyon Lake Holdings LLC	Retail fuel operations	USA	**—**	**—**	**—**
Excellent Performance Chemicals Company	Petrochemical manufacture and sales	Saudi Arabia	**1**	**85**	**51**
4 Rivers Energy LLC	Retail fuel operations	USA	**—**	**—**	**—**
Motiva Enterprises LLC	Refining and marketing	USA	**5,256**	**16,766**	**75**
Motiva Trading LLC	Purchasing and sale of petroleum goods and other services	USA	**—**	**—**	**—**
Mukamala Oil Field Services Limited Company	Oil field services	Saudi Arabia	**358**	**—**	**—**
Pandlewood Corporation N.V.	Financing	Curacao	**6,367**	**4**	**120**
Pedernales Ventures LLC	Retail fuel operations	USA	**—**	**—**	**—**
Saudi Aramco Asia Company Ltd.	Investment	Saudi Arabia	**1,382**	**—**	**20**
Saudi Aramco Capital Company Limited	Investment	Guernsey	**—**	**—**	**—**
Saudi Aramco Development Company	Investment	Saudi Arabia	**779**	**—**	**7**
Saudi Aramco Energy Ventures LLC	Investment	Saudi Arabia	**4**	**—**	**—**
SAEV Europe Ltd.	Investment	United Kingdom	2	2	—
SAEV Guernsey Holdings Ltd.	Investment	Guernsey	**851**	**—**	**1**
SAEV Guernsey 1 Ltd.	Investment	Guernsey	**115**	**—**	**—**
Saudi Aramco Energy Ventures – U.S. LLC	Investment	USA	**2**	**2**	**—**
Saudi Aramco Entrepreneurship Center Company Ltd.	Financing	Saudi Arabia	**101**	**3**	**2**
Saudi Aramco Entrepreneurship Venture Company, Ltd.	Investment	Saudi Arabia	**82**	**—**	**—**
Saudi Aramco Investment Management Company	Investment management of post-employment benefit plans	Saudi Arabia	**3**	**—**	**—**

(All amounts in millions unless otherwise stated)

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018[1]	Conventional financial liabilities as of December 31, 2018[1]	Interest income from conventional financial assets for the year ended December 31, 2018[1]
Saudi Aramco Power Company	Power generation	Saudi Arabia	**7**	**—**	**—**
Saudi Aramco Products Trading Company	Importing/exporting refined products	Saudi Arabia	**3,540**	**4,821**	**70**
Saudi Aramco Retail Company	Retail fuel marketing	Saudi Arabia	**—**	**—**	**—**
Saudi Aramco Sukuk Company	Investment	Saudi Arabia	**—**	**81**	**—**
Saudi Aramco Technologies	Research and commercialization	Saudi Arabia	**78**	**64**	**—**
Saudi Aramco Upstream Technology Company	Research and commercialization	Saudi Arabia	**2**	**37**	**—**
Saudi Petroleum International, Inc.	Marketing support services	USA	**27**	**13**	**—**
Saudi Petroleum, Ltd.	Marketing support and tanker services	British Virgin Islands	**19**	**—**	**—**
Saudi Petroleum Overseas, Ltd.	Marketing support and tanker services	United Kingdom	**36**	**11**	**—**
Saudi Refining, Inc.	Refining and marketing	USA	**958**	**79**	**5**
Stellar Insurance, Ltd.	Insurance	Bermuda	**7,651**	**577**	**55**
Vela International Marine Ltd.	Marine management and transportation	Liberia	**21,267**	**—**	**414**
Wisayah Alkhaleej Investment Company	Financial support	Saudi Arabia	**83**	**12**	**1**
ARLANXEO Holding B.V.	Development, manufacture, and marketing of high-performance rubber	Netherlands	**540**	**2,617**	**—**
ARLANXEO Belgium N.V.		Belgium			
ARLANXEO Branch Offices B.V.		Netherlands			
ARLANXEO Brasil S.A.		Brazil			
ARLANXEO Canada Inc.		Canada			
ARLANXEO Deutschland GmbH		Germany			
ARLANXEO Elastomères Frances S.A.S.		France			
ARLANXEO Emulsion Rubber France S.A.S.		France			
ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd.		People's Republic of China			
ARLANXEO Netherlands B.V.		Netherlands			

	Principal Business Activity	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018(1)	Conventional financial liabilities as of December 31, 2018(1)	Interest income from conventional financial assets for the year ended December 31, 2018(1)
ARLANXEO Singapore Pte. Ltd.		Singapore			
ARLANXEO Switzerland S.A.		Switzerland			
ARLANXEO USA Holdings Corp.		USA			
ARLANXEO USA LLC		USA			
Petroflex Trading S.A.		Uruguay			
B. Non-wholly owned					
30% ownership of Arabian Rig Manufacturing Company(2)	Manufacturing	Saudi Arabia	**—**	**—**	**—**
49% ownership of Aramco Training Services Company(2)	Training	USA	**1**	**—**	**—**
50% ownership of ARLANXEO-TSRC(2)	Development, manufacture, and marketing of high-performance rubber	People's Republic of China	**—**	**99**	**—**
80% ownership of Johns Hopkins Aramco Healthcare Company	Healthcare	Saudi Arabia	**292**	**854**	**3**
61.6% ownership of North East Chemicals Company, Ltd	Liquid chemicals storage	South Korea	**—**	**—**	**—**
70% ownership of Saudi Aramco Base Oil Company - LUBEREF	Production and sale of petroleum based lubricants	Saudi Arabia	**—**	**570**	**—**
50% ownership of Saudi Aramco Nabors Drilling Company(2)	Drilling	Saudi Arabia	**794**	**2,085**	**8**
50% ownership of Saudi Aramco Rowan Offshore Drilling Company(2)	Drilling	Saudi Arabia	**666**	**2,106**	**—**
61.6% ownership of S-Oil Corporation	Refining	South Korea	**2,542**	**16,681**	**83**
61.6% ownership of S-International Ltd.	Purchasing and sale of petroleum goods	The Independent State of Samoa	**—**	**—**	**—**

(1) Represents 100% amounts of subsidiaries, after elimination of intercompany transactions.
(2) Agreements and constitutive documents provide Saudi Aramco control.

(All amounts in millions unless otherwise stated)

34. Joint operations of Saudi Arabian Oil Company

	Principal business activity	Percent ownership	Place of business / country of incorporation	Conventional financial assets as of December 31, 2018[1]	Conventional financial liabilities as of December 31, 2018[1]	Interest income from conventional financial assets for the year ended December 31, 2018[1]
Al-Khafji Joint Operations	Oil and gas exploration and production	50%	Saudi-Kuwaiti Partitioned Zone	—	—	—
Fadhili Plant Cogeneration Company	Power generation	30%	Saudi Arabia	**3**	**929**	—
Maasvlakte Olie Terminal C.V.	Tank storage	9.61%	Netherlands	—	—	—
Maasvlakte Olie Terminal N.V.	Tank storage	16.67%	Netherlands	—	—	—
Pengerang Refining Company Sdn. Bhd.	Refining	50%	Malaysia	**577**	**1,548**	**2**
Pengerang Petrochemical Company Sdn. Bhd.	Petrochemical	50%	Malaysia	**110**	**509**	**1**
Power Cogeneration Plant Company, LLC	Power generation	50%	Saudi Arabia	**74**	**932**	**58**
Saudi Aramco Mobil Refinery Company Ltd.	Refining	50%	Saudi Arabia	**1,123**	**722**	**23**
Saudi Aramco Shell Refinery Company	Refining	50%	Saudi Arabia	**268**	**308**	**46**
Saudi Aramco Total Refining and Petrochemical Company[2]	Refining and petrochemical	62.50%	Saudi Arabia	**1,715**	**13,125**	**62**
Yanbu Aramco Sinopec Refining Company Limited[2]	Refining	62.50%	Saudi Arabia	**317**	**7,989**	—

(1) Represents Saudi Aramco's share of conventional financial assets, financial liabilities and interest income.

(2) Agreements and constitutive documents do not give a single shareholder control; therefore, the joint operation does not qualify as a subsidiary.