

2019

Saudi Arabian Oil Company

half-year report

for the six months ended June 30, 2019

saudi aramco at a glance - half year 2019

US\$ (billion)

46.9

Net income

US\$ (billion)

92.5

EBIT*

US\$ (billion)

38.0

Free cash flow*

(%)

2.4

Gearing*

US\$ (billion)

14.5

Capital expenditure

(%)

36.0

ROACE*

US\$ (billion)

46.4

Dividends paid

(mmbpd)

13.2

Hydrocarbon production

(mmbpd)

10.0

Crude oil production

(mmbpd)

4.6

Refining gross throughput

(%)

99.9

Reliability

(kg of CO₂ equivalent per boe)

10.2

Upstream carbon intensity (2018 full year)

(scf/boe)

5.57

Flaring intensity

(per 200,000 work hours)

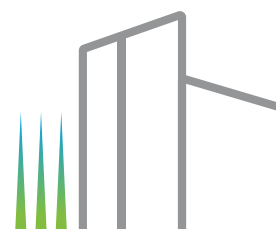
0.009

Lost Time Injury (LTI) rate

(#)

184

Patents granted



*Non-IFRS measure: refer to the Glossary section for definition.

key highlights

Financial results

	US\$ million	
	Half year ended June 30	
	2019	2018
Net income	46,899	53,019
EBIT	92,506	101,331
Free cash flow	37,980	35,593
Capital expenditure	14,470	16,464
Dividends paid	46,390	32,000
Return on average capital employed (ROACE) - twelve-month rolling period	36.0%	38.8%

Operational results

	Half year ended June 30	
	2019	2018
Average realized crude oil price per barrel (\$)	66	69
Hydrocarbon production (mmbboed)	13.2	13.2
Crude oil production ¹ (mmbpd)	10.0	10.0
Refining gross throughput (mmbpd)	4.6	4.5
Reliability ² (%)	99.9	99.8
Lost Time Injury (LTI) rate ² (per 200,000 work hours)	0.009	0.015
Flaring intensity ² (scf/boe)	5.57	6.17

¹ Includes condensate blended with crude oil; excludes Kingdom of Bahrain's entitlement to volumes produced from Abu Sa'fah

² Represents wholly owned in-Kingdom operated facilities

CEO's statement

Saudi Aramco President & CEO Amin H. Nasser, said:

"Despite lower oil prices during the first half of 2019, we continued to deliver solid earnings and strong free cash flow underpinned by our consistent operational performance, cost management and fiscal discipline.

Disclosing our financial results for the first time, as part of our \$12 billion debut international bond issuance, marked a significant milestone in Saudi Aramco's history.

We demonstrated our reliability with near 100% delivery on our customers' requirements for oil and refined products, maintaining our total hydrocarbon production of 13.2 million barrels of oil equivalent per day and an average daily crude production of 10 million barrels per day.

Leveraging our strength in Upstream, we continued to deliver on our Downstream growth strategy, including acquisitions in both Saudi Arabia and key international markets. These acquisitions are expected to enhance dedicated crude placement, increase refining and chemicals capacity, capture value from integration and diversify our operations.

We also signed an agreement to acquire a 70% equity stake in SABIC which is among the world's top petrochemicals companies by revenues. This is a major step in accelerating growth in Downstream through refining and petrochemicals integration, maximizing the profitability from every molecule we produce.

We grew our trading business and scaled up innovation efforts through pioneering initiatives such as crude-to-chemicals, non-metallic materials manufacturing, and hydrogen fuels.

Environmental and safety performance is at the forefront of the way we operate. We are particularly proud of the fact that for the first time we announce our Upstream carbon intensity, which is amongst the lowest globally.

Looking ahead, we will maintain a prudent and flexible balance sheet. Our financials are strong and we will continue to invest for future growth."

strategic highlights

Upstream

The Company maintained its pre-eminent position as one of the world's most reliable suppliers of energy, with total hydrocarbon production of 13.2 mmbpd in the first half of 2019. To sustain this position, the Marjan and Berri field increment programs have started, which are expected to contribute 550 mbpd of crude oil and 2.5 bscfd of gas to the fields' production capacity. The Marjan program also includes the construction of a gas plant in the Tanajib area.

The Fadhili gas plant, which is designed to process 2.5 bscfd of raw gas, is on track for start-up later in 2019. The project is expected to become a key component of the Company's Master Gas System and is part of the Company's strategy to materially grow its gas production.

The Company's exploration success continued with the following discoveries; one gas field, seven reservoirs as well as four delineation successes across both oil and gas.

Downstream

The Company continued its commitment to creating an integrated global downstream refining and chemicals business. Downstream remains focused on increasing its refining capacity, increasing placement of crude oil in dedicated outlets and integrating through the value chain to chemicals, achieving 99.9% reliability in meeting customer needs.

In chemicals, the Company entered into a Share Purchase Agreement (SPA) for the acquisition of a 70% equity interest in Saudi Basic Industries Corporation (SABIC) from the Public Investment Fund (PIF). This acquisition is expected to be a major step in accelerating the Company's transformative downstream growth strategy of integrating refining and petrochemicals. Closing of the acquisition is subject to customary closing conditions.

In refining, the Company continued to capture opportunities and execute initiatives to meet the strategic goal of increasing refining capacity. The Company entered into an SPA with Shell Saudi Arabia Refining Limited (Shell) to take full ownership of Saudi Aramco Shell Refinery Company (SASREF) located in Jubail Industrial City, by acquiring the remaining 50% share of SASREF from Shell, adding 152.5 mbpd to the Company's net refining capacity. Additionally, the Company reached an agreement to acquire a 17% stake in Hyundai Oilbank, a subsidiary of Hyundai Heavy Industries Holdings.

The Company continues its pursuit of being a key global trader. Aramco Trading Company (ATC) and Motiva Enterprises LLC (Motiva), both wholly owned subsidiaries, helped to increase the Company's global trading presence.

In retail, Saudi Aramco Retail Company, a wholly owned subsidiary of the Company, and Total Marketing S.A., a subsidiary of Total S.A., jointly acquired the Tas'helat Marketing Company. Tas'helat operates a network of 270 retail gasoline service stations under the "Sahel" brand name and 71 convenience stores across the Kingdom.

half year 2019 financial highlights

Despite a lower oil price environment during the first half of 2019, the Company delivered solid earnings and strong free cash flow combined with reliable operational performance. Net income for the first half of 2019 was SAR 175,871 million (\$46,899 million), reflecting a decrease of 12% compared to SAR 198,820 million (\$53,019 million) in the first half of 2018. This was mainly due to a decrease of 4% in the average realized price of crude oil from \$69 to \$66 per barrel and an increase in purchases, producing and manufacturing costs and depreciation and amortization costs, partially offset by a decrease of SAR 9,816 million (\$2,617 million) in income taxes.

The increase of SAR 9,123 million (\$2,433 million) in purchases was primarily due to the higher volumes purchased by ATC and Motiva as the Company continues to grow its crude oil trading business. Producing and manufacturing costs increased by SAR 5,189 million (\$1,384 million) mainly due to the consolidation of ARLANXEO Holding B.V.'s production costs of SAR 5,130 million (\$1,368 million) following the December 31, 2018 acquisition. The increase of SAR 4,534 million (\$1,209 million) in depreciation and amortization was due to the recognition of right-of-use assets on the Consolidated Balance Sheet, following the adoption of IFRS 16 – Leases (IFRS 16), effective January 1, 2019 and other additions to depreciable assets.

Free cash flow for the first half of 2019 increased by 7% compared to the same period in 2018, from SAR 133,472 million (\$35,593 million) to SAR 142,426 million (\$37,980 million). The impact of lower oil prices and higher operating costs on operating cash flow was offset by the favorable impact of working capital changes. Additionally, the increase in free cash flow was driven in large part by a 12% decrease in capital expenditure from SAR 61,741 million (\$16,464 million) to SAR 54,263 million (\$14,470 million).

Total dividends paid to the Company's shareholder in the first half of 2019 were SAR 173,963 million (\$46,390 million) compared to SAR 120,000 million (\$32,000 million) in the first half of 2018. The first half 2019 payment comprises an ordinary dividend of SAR 98,963 million (\$26,390 million) and a special dividend of SAR 75,000 million (\$20,000 million). The special dividend paid earlier this year reflected the exceptionally strong financial performance the Company delivered in 2018.

working safely, responsibly and sustainably

The Company's full year 2018 Greenhouse Gas (GHG) emissions were verified for the first time by a certified third party and an independent limited assurance opinion was issued. The Upstream carbon intensity, including both direct (Scope 1) and indirect (Scope 2) emissions for the year ended December 31, 2018 was 10.2 kilograms of carbon dioxide (CO₂) equivalent per boe. This was calculated using the Upstream portion of the total verified GHG emissions and total hydrocarbon deliveries.

The Company's success depends on the safety of its operations and the protection and development of its people. In the first half of 2019, Lost Time Injury rate was 0.009 per 200,000 work hours compared with 0.015 per 200,000 work hours for the same period in 2018.

The Company continues to align research and development with the technology needs of the business. An enhanced focus on flagship technologies creates a clear and sustainable competitive advantage for the Company. A total of 184 patents have been granted during the first half of 2019.

About Saudi Aramco

Saudi Aramco is one of the world's largest integrated oil and gas companies; its Upstream operations are based in the Kingdom of Saudi Arabia and it also operates a global Downstream business. Headquartered in the city of Dhahran, the Company operates in eight locations within the Kingdom and 20 locations overseas, and employs around 76,000 people. www.saudiaramco.com/investors

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selected financial
information



condensed consolidated statement of income

	SAR		USD*	
	Half year 2019	Half year 2018	Half year 2019	Half year 2018
Revenue	550,720	557,870	146,859	148,765
Other income related to sales	63,836	70,916	17,023	18,911
Revenue and other income related to sales	614,556	628,786	163,882	167,676
Production royalties and excise and other taxes	(94,158)	(95,827)	(25,109)	(25,554)
Purchases	(97,312)	(88,189)	(25,950)	(23,517)
Producing and manufacturing	(29,512)	(24,323)	(7,870)	(6,486)
Selling, administrative and general	(16,922)	(15,856)	(4,512)	(4,228)
Exploration	(3,527)	(4,225)	(941)	(1,127)
Research and development	(951)	(1,035)	(254)	(276)
Depreciation and amortization	(24,297)	(19,763)	(6,479)	(5,270)
Operating costs	(266,679)	(249,218)	(71,115)	(66,458)
Operating income	347,877	379,568	92,767	101,218
Share of results of joint ventures and associates	(1,432)	314	(382)	84
Finance and other income	3,168	1,104	845	294
Finance costs	(2,779)	(1,387)	(741)	(370)
Income before income taxes	346,834	379,599	92,489	101,226
Income taxes	(170,963)	(180,779)	(45,590)	(48,207)
Net income	175,871	198,820	46,899	53,019
Net income attributable to				
Shareholder's equity	176,017	198,361	46,938	52,896
Non-controlling interests	(146)	459	(39)	123
	175,871	198,820	46,899	53,019

The above figures have been extracted from the condensed consolidated interim financial statements of Saudi Aramco (the "condensed consolidated interim financial report") on which PricewaterhouseCoopers - Certified Public Accountants issued an unmodified review conclusion.

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

condensed consolidated balance sheet

	SAR		USD*	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Assets				
Non-current assets				
Property, plant and equipment	929,496	873,827	247,866	233,021
Intangible assets	27,427	26,896	7,314	7,172
Investments in joint ventures and associates	22,614	22,579	6,030	6,021
Deferred income tax assets	10,713	9,866	2,857	2,631
Other assets and receivables	18,128	13,127	4,834	3,501
Investments in securities	18,855	17,214	5,028	4,590
	1,027,233	963,509	273,929	256,936
Current assets				
Inventories	45,164	43,580	12,044	11,621
Trade receivables	100,178	93,818	26,714	25,018
Due from the Government	46,715	48,140	12,457	12,837
Other assets and receivables	11,464	13,775	3,057	3,673
Short-term investments	45,452	194	12,120	52
Cash and cash equivalents	148,225	183,152	39,527	48,841
	397,198	382,659	105,919	102,042
Total assets	1,424,431	1,346,168	379,848	358,978
Equity and liabilities				
Shareholder's equity				
Share capital	60,000	60,000	16,000	16,000
Additional paid-in capital	26,981	26,981	7,195	7,195
Retained earnings:				
Unappropriated	918,011	920,625	244,803	245,500
Appropriated	6,000	6,000	1,600	1,600
Other reserves	1,959	3,176	522	847
	1,012,951	1,016,782	270,120	271,142
Non-controlling interests	11,176	11,653	2,980	3,107
	1,024,127	1,028,435	273,100	274,249
Non-current liabilities				
Borrowings	134,472	71,329	35,859	19,021
Deferred income tax liabilities	26,958	23,877	7,189	6,367
Post-employment benefit obligations	33,505	23,209	8,935	6,189
Provisions	16,519	15,606	4,405	4,162
	211,454	134,021	56,388	35,739
Current liabilities				
Trade and other payables	68,279	72,286	18,208	19,276
Obligations to the Government:				
Income taxes	69,174	69,575	18,446	18,553
Royalties	12,990	11,862	3,464	3,164
Borrowings	38,407	29,989	10,242	7,997
	188,850	183,712	50,360	48,990
	400,304	317,733	106,748	84,729
Total equity and liabilities	1,424,431	1,346,168	379,848	358,978

The above figures have been extracted from the condensed consolidated interim financial statements of Saudi Aramco (the "condensed consolidated interim financial report") on which PricewaterhouseCoopers - Certified Public Accountants issued an unmodified review conclusion.

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

condensed consolidated statement of cash flows

	SAR		USD*	
	Half year 2019	Half year 2018	Half year 2019	Half year 2018
Income before income taxes	346,834	379,599	92,489	101,226
Adjustments to reconcile income before income taxes to net cash provided by operating activities				
Depreciation and amortization	24,297	19,763	6,479	5,270
Exploration and evaluation costs written off	1,539	1,618	410	432
Share of results of joint ventures and associates	1,432	(314)	382	(84)
Finance income	(2,714)	(996)	(724)	(266)
Finance costs	2,779	1,387	741	370
Dividends from investments in securities	(432)	(103)	(115)	(28)
Change in fair value of investments through profit or loss	(216)	(33)	(58)	(9)
Change in joint ventures and associates inventory profit elimination	87	169	23	45
Other	197	(1,656)	53	(441)
Change in working capital				
Inventories	(1,584)	(7,089)	(422)	(1,890)
Trade receivables	(7,458)	(31,282)	(1,989)	(8,342)
Due from the Government	1,425	(5,573)	380	(1,486)
Other assets and receivables	2,562	(4,783)	683	(1,275)
Trade and other payables	(4,328)	5,935	(1,154)	1,583
Royalties payable	1,128	(1,784)	300	(476)
Other changes				
Other assets and receivables	(5,732)	(1,116)	(1,528)	(298)
Provisions	737	112	197	30
Post-employment benefit obligations	1,062	(2,753)	283	(734)
Settlement of income and other taxes	(164,926)	(155,888)	(43,980)	(41,570)
Net cash provided by operating activities	196,689	195,213	52,450	52,057
Net cash used in investing activities				
Capital expenditures	(54,263)	(61,741)	(14,470)	(16,464)
Acquisition of affiliates, net of cash acquired	(385)	(2,662)	(103)	(710)
Distributions from joint ventures and associates	660	988	176	263
Additional investment in joint ventures and associates	(321)	(23)	(86)	(6)
Dividends from investments in securities	432	103	115	28
Interest received	2,463	954	657	254
Net investments in securities	(607)	(246)	(162)	(66)
Net (purchases) maturities of short-term investments	(45,258)	4,105	(12,068)	1,095
Net cash used in investing activities	(97,279)	(58,522)	(25,941)	(15,606)
Net cash used in financing activities				
Dividends	(173,963)	(120,000)	(46,390)	(32,000)
Dividends paid to non-controlling interests	(22)	(812)	(6)	(216)
Interest paid	(2,376)	(1,315)	(634)	(351)
Proceeds from borrowings	47,963	4,491	12,790	1,197
Repayments of borrowings	(5,939)	(4,871)	(1,583)	(1,299)
Net cash used in financing activities	(134,337)	(122,507)	(35,823)	(32,669)
Net (decrease) increase in cash and cash equivalents	(34,927)	14,184	(9,314)	3,782
Cash and cash equivalents at beginning of the period	183,152	81,242	48,841	21,665
Cash and cash equivalents at end of the period	148,225	95,426	39,527	25,447

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terms and abbreviations

Currencies	
SAR/ Riyal	Saudi Arabian Riyal
\$/ Dollar	U.S. Dollar/US\$

Units of measurement

barrel (bbl)	42 U.S. gallons
boe	Barrels of oil equivalent
bscfd	Billion standard cubic feet per day
mbspd	Thousand barrels per day
mmbpd	Million barrels per day
mmboed	Million barrels of oil equivalent per day; it is derived from million standard cubic feet per day (for natural gas and ethane) by dividing the relevant product production by 5.400 (in the case of natural gas) and 3.330 (in the case of ethane)
scf/boe	Standard cubic feet per barrel of oil equivalent
per day	Volumes are converted into a daily basis using a calendar year

glossary

Company or Saudi Aramco	Saudi Arabian Oil Company together with its consolidated subsidiaries, and where the context requires, its joint operations, joint ventures and associates.
Earnings Before Interest and Taxes (EBIT)*	EBIT is defined as net income plus finance costs and income taxes, less finance income.
Free cash flow*	Free cash flow is defined as net cash provided by operating activities less capital expenditure.
Gearing*	Gearing is defined as ratio of (i) total borrowings (current and non-current) less cash and cash equivalents to (ii) total borrowings less cash and cash equivalents plus total equity.
Hydrocarbon production	Hydrocarbon production comprises liquids, natural gas and ethane.
IFRS	International Financial Reporting Standards, as endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").
Kingdom	The Kingdom of Saudi Arabia.
Lost Time Injury (LTI)	LTI is defined as an on-job injury or occupational illness that involves one or more days away from work beyond the day the injury or illness occurred, excluding fatalities. This covers Saudi Arabian Oil Company only.
Master Gas System (MGS)	MGS is an extensive network of pipelines that connects the Company's key gas production and processing sites throughout the Kingdom.

Net refining capacity	Net refining capacity is defined as the Company's equity share of its gross refining capacity, calculated by multiplying the gross refining capacity of each refinery in which the Company has an interest by the Company's percentage equity ownership in the entity that owns the refinery.
Reliability	Reliability is defined as total products volume shipped/delivered within 24 hours of the scheduled time, divided by the total products volume committed. Any delays caused by factors that are under the Company's control (e.g., terminal, pipeline, stabilization, or production) negatively affect the score, whereas delays caused by conditions that are beyond the Company's control, such as adverse weather, are not considered. A score of less than 100 percent indicates there were issues that negatively impacted reliability.
Return on Average Capital Employed (ROACE)*	ROACE is defined as net income before finance costs, net of tax, for a twelve-month rolling period as a percentage of average capital employed during the same period. Average capital employed is the average of the Company's total borrowings plus total equity at the beginning and end of the applicable period.
Scope 1 – direct emissions	Direct emissions include the following types of emission sources: <ul style="list-style-type: none"> › Fuels combusted in stationary sources on-site; › Flaring; › Equipment blowdown; › Process vents such as storage tanks, dehydration units, etc; and › Fugitive emissions from leaking components.
Scope 2 – indirect emissions	Accounts for GHG emissions from the generation of purchased electricity and steam consumed by the Company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the Company.

*For a reconciliation of this number to the nearest comparable IFRS number, see <https://www.saudiaramco.com/-/media/publications/corporate-reports/non-ifsr-aug-12-2019-english.pdf>

disclaimer

IMPORTANT: The following applies to the information in this document by Saudi Arabian Oil Company (the “Company”) (collectively, the “Information”).

The Information contains forward-looking statements. All statements other than statements of historical fact included in the Information are forward-looking statements. Forward-looking statements give the Company’s current expectations and projections relating to our capital expenditure and investments, major projects, upstream performance, including relative to peers, and growth in downstream and chemicals. These statements may include, without limitation, any statements preceded by, followed by or including words such as “target,” “believe,” “expect,” “aim,” “intend,” “may,” “anticipate,” “estimate,” “plan,” “project,” “will,” “can have,” “likely,” “should,” “would,” “could” and other words and terms of similar meaning or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the Company’s actual results, performance or achievements to be materially different from the expected results, performance, or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which it will operate in the future.

The Information will not be updated. The Information, including but not limited to forward-looking statements, applies only as of the date of this document and is not intended to give any assurances as to future results. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to the Information, including any financial data or forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law or regulation.

The Company’s financial information herein has been extracted from the Company’s condensed consolidated interim financial report, which is prepared and presented in accordance with IAS 34, that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). In addition, this document includes certain “non-IFRS financial measures.” These measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company’s results of operations from management’s perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the Company’s financial information reported under IFRS. For a reconciliation of non-IFRS measures to the nearest comparable IFRS measure, see <https://www.saudiarabco.com/-/media/publications/corporate-reports/non-ifs-aug-12-2019-english.pdf>