

Non-IFRS measures reconciliations and definitions

Aramco uses certain non-IFRS financial measures – free cash flow and gearing– in the analysis of its business and financial position.

These non-IFRS financial measures have been included below to facilitate a better understanding of Aramco's historical trends of operation and financial position.

Aramco uses non-IFRS financial measures as supplementary information to its IFRS based operating performance and financial position. The non-IFRS financial measures are not defined by, or presented in accordance with, IFRS. The non-IFRS financial measures are not measurements of Aramco's operating performance or liquidity under IFRS and should not be used instead of, or considered as alternatives to, any measures of performance or liquidity under IFRS. The non-IFRS financial measures relate to the second quarter and first half of 2020 and are not intended to be predictive of future results. In addition, other companies, including those in Aramco's industry, may calculate similarly titled non-IFRS financial measures differently from Aramco. Because companies do not necessarily calculate these non-IFRS financial measures in the same manner, Aramco's presentation of such non-IFRS financial measures may not be comparable to other similarly titled non-IFRS financial measures used by other companies.

Free cash flow

Aramco uses free cash flow to evaluate its cash available for financing activities, including dividend payments. Aramco defines free cash flow as net cash provided by operating activities less capital expenditures.

Free cash flow decreased from SAR 77,299 (\$20,614) in the second quarter of 2019 to SAR 22,878 (\$6,101) for the same quarter in 2020, a decrease of SAR 54,421 (\$14,513). This was mainly driven by lower operating cash flow, reflecting a decrease in crude oil prices and declining refining and chemicals margins, partially offset by a reduction in settlement of taxes and zakat and favourable movements in working capital. Capital expenditures decreased by SAR 3,931 (\$1,049) in the second quarter of 2020, compared to the same quarter in 2019, reflecting the implementation of capital spending optimization and efficiency programs.

Free cash flow decreased from SAR 142,426 (\$37,980) in the first half of 2019 to SAR 79,205 (\$21,122) for the same period in 2020, a decrease of SAR 63,221 (\$16,858). The impact of lower earnings on operating cash flow was partially offset by cash released from working capital changes and a decrease in settlement of taxes and zakat. The implementation of capital spending optimization and efficiency programs led to lower capital expenditures in 2020.

	Second quarter				Half year			
	SAR		USD*		SAR		USD*	
	2020	2019	2020	2019	2020	2019	2020	2019
All amounts in millions unless otherwise stated								
Net cash provided by operating activities	46,310	104,662	12,349	27,911	130,377	196,689	34,767	52,450
Capital expenditures	(23,432)	(27,363)	(6,248)	(7,297)	(51,172)	(54,263)	(13,645)	(14,470)
Free cash flow	22,878	77,299	6,101	20,614	79,205	142,426	21,122	37,980

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

Gearing

Gearing is a measure of the degree to which Aramco's operations are financed by debt. Aramco defines gearing as the ratio of total borrowings less cash and cash equivalents to total borrowings less cash and cash equivalents plus total equity. Management believes that gearing is widely used by analysts and investors in the oil and gas industry to indicate a company's financial health and flexibility.

Gearing increased from -0.2% (net cash position) as at December 31, 2019 to 20.1% as at June 30, 2020. This was primarily due to the deferred consideration in relation to the SABIC acquisition and the consolidation of SABIC's net debt onto Aramco's balance sheet.

	SAR		USD*	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
<i>All amounts in millions unless otherwise stated</i>				
Total borrowings (current and non-current)	492,143	175,585	131,238	46,823
Cash and cash equivalents	(206,593)	(177,706)	(55,092)	(47,388)
Net debt / (cash)	285,550	(2,121)	76,146	(565)
Total equity	1,132,520	1,046,235	302,005	278,996
Total equity and net debt / (cash)	1,418,070	1,044,114	378,151	278,431
Gearing	20.1%	(0.2)%	20.1%	(0.2)%

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