

Non-IFRS measures reconciliations and definitions

This Interim Report includes certain non-IFRS financial measures – ROACE, free cash flow, gearing and EBIT – which Saudi Aramco uses in the analysis of its business and financial position.

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

Saudi 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 Saudi Aramco's operating performance or liquidity under IFRS and should not be used instead of, or considered as alternatives to, any measures of performance or liquidity under IFRS. The non-IFRS financial measures relate to the reporting periods described in this Interim Report and are not intended to be predictive of future results. In addition, other companies, including those in Saudi Aramco's industry, may calculate similarly titled non-IFRS financial measures differently from Saudi Aramco. Because companies do not necessarily calculate these non-IFRS financial measures in the same manner, Saudi Aramco's presentation of such non-IFRS financial measures may not be comparable to other similarly titled non-IFRS financial measures used by other companies.

ROACE

ROACE measures the efficiency of Saudi Aramco's utilization of capital. Saudi Aramco defines ROACE as net income before finance costs, net of tax, for a period as a percentage of average capital employed during that period. Average capital employed is the average of total borrowings plus total equity at the beginning and end of the applicable period. Saudi Aramco utilizes ROACE to evaluate management's performance and demonstrate to its shareholders that capital has been used effectively.

ROACE for the twelve months ended March 31, 2019 and 2020 was 40.0% and 26.3%, respectively. The decrease was principally due to lower net income.

	SAR		USD*	
	Twelve months ended March 31		Twelve months ended March 31	
	2020	2019	2020	2019
All amounts in millions unless otherwise stated				
Net income	309,885	407,872	82,636	108,766
Finance costs, net of tax	3,174	1,764	847	470
Net income before finance costs, net of tax	313,059	409,636	83,483	109,236
As at period start:				
Non-current borrowings	90,146	66,477	24,039	17,727
Current borrowings	36,213	24,637	9,657	6,570
Total equity	985,630	844,852	262,834	225,294
Capital employed	1,111,989	935,966	296,530	249,591
As at period end:				
Non-current borrowings	154,466	90,146	41,191	24,039
Current borrowings	30,783	36,213	8,209	9,657
Total equity	1,079,539	985,630	287,877	262,834
Capital employed	1,264,788	1,111,989	337,277	296,530
Average capital employed	1,188,389	1,023,978	316,904	273,061
ROACE	26.3%	40.0%	26.3%	40.0%

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

Free cash flow

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

Free cash flow decreased from SAR 65,127 (\$17,366) in the first quarter of 2019 to SAR 56,327 (\$15,021) for the same period in 2020, a decrease of SAR 8,800 (\$2,345), or 13.5%. This was mainly driven by lower operating cash flow, reflecting declining crude oil prices and refining and chemicals margins, partially offset by favourable movements in working capital. Capital expenditures marginally increased by SAR 840 (\$224) in the first quarter of 2020, compared to the same period in 2019.

	SAR		USD*	
	First quarter		First quarter	
	2020	2019	2020	2019
Net cash provided by operating activities	84,067	92,027	22,418	24,539
Capital expenditures	(27,740)	(26,900)	(7,397)	(7,173)
Free cash flow	56,327	65,127	15,021	17,366

All amounts in millions unless otherwise stated

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Gearing

Gearing is a measure of the degree to which Saudi Aramco's operations are financed by debt. Saudi Aramco defines gearing as the ratio of 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 decreased from -0.2% as at December 31, 2019 to -4.9% as at March 31, 2020 (net cash position at both period-ends). This was primarily due to an increase in cash and cash equivalents relating to the proceeds from the issuance of Senior Unsecured Notes of SAR 45,000 (\$12,000) in 2019 that were held in short-term investments at December 31, 2019, and matured during the quarter.

	SAR		USD*	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
Total borrowings (current and non-current)	185,249	175,585	49,400	46,823
Cash & cash equivalents	(235,435)	(177,706)	(62,783)	(47,388)
Net cash	(50,186)	(2,121)	(13,383)	(565)
Total equity	1,079,539	1,046,235	287,877	278,996
Total equity and net cash	1,029,353	1,044,114	274,494	278,431
Gearing	(4.9)%	(0.2)%	(4.9)%	(0.2)%

All amounts in millions unless otherwise stated

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Earnings before interest and taxes (EBIT)

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

EBIT for the quarter ended March 31, 2019 and 2020 was SAR 165,949 (\$44,253) and SAR 128,258 (\$34,202), respectively. The decrease of SAR 37,691 (\$10,051), or 22.7%, was mainly attributable to lower crude oil prices, and refining and chemicals margins.

	SAR		USD*	
	First quarter		First quarter	
	2020	2019	2020	2019
Net income	62,478	83,286	16,661	22,210
Finance income	(1,060)	(1,440)	(283)	(384)
Finance costs	1,583	1,261	422	336
Income taxes	65,257	82,842	17,402	22,091
Earnings before interest and taxes	128,258	165,949	34,202	44,253

All amounts in millions unless otherwise stated

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