

Non-IFRS measures reconciliations and definitions

Aramco uses certain non-IFRS financial measures – ROACE, free cash flow, gearing and EBIT – 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 third quarter and nine month periods 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.

ROACE

ROACE measures the efficiency of Aramco's utilization of capital. Aramco defines ROACE as net income before finance costs, net of income taxes and zakat, 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. Aramco utilizes ROACE to evaluate management's performance and demonstrate to its shareholders that capital has been used effectively.

ROACE for the third quarter and nine months ended September 30, 2020, calculated on a twelve-month rolling basis, was 14.8% compared to 31.5% for the same periods in 2019. This decrease was primarily attributable to lower net income, and to a lesser extent, higher borrowings as a result of the SABIC acquisition.

	SAR		USD*	
	Twelve months ended September 30		Twelve months ended September 30	
	2020	2019	2020	2019
All amounts in millions unless otherwise stated				
Net income	206,291	359,771	55,010	95,939
Finance costs, net of income taxes and zakat	4,265	2,608	1,137	696
Net income before finance costs, net of income taxes and zakat	210,556	362,379	56,147	96,635
As at period start:				
Non-current borrowings	133,288	73,302	35,543	19,547
Current borrowings	40,006	28,883	10,668	7,702
Total equity	1,049,446	973,892	279,852	259,705
Capital employed	1,222,740	1,076,077	326,063	286,954
As at period end:				
Non-current borrowings	411,552	133,288	109,747	35,543
Current borrowings	96,770	40,006	25,805	10,668
Total equity	1,113,737	1,049,446	296,997	279,852
Capital employed	1,622,059	1,222,740	432,549	326,063
Average capital employed	1,422,400	1,149,409	379,306	306,509
ROACE	14.8%	31.5%	14.8%	31.5%

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

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 for the third quarter of 2020 was SAR 46,547 (\$12,411), compared to SAR 77,290 (\$20,611) for the same quarter in 2019, a decrease of SAR 30,743 (\$8,200). This decrease was principally due to lower operating cash flow, reflecting a decline in earnings and unfavourable movements in working capital, partially offset by a reduction in settlement of taxes and zakat. Capital expenditures decreased by SAR 6,418 (\$1,711) in the third quarter of 2020, compared to the same quarter in 2019, as a result of the on-going capital spending optimization and efficiency programs.

Free cash flow for the first nine months of 2020 was SAR 125,752 (\$33,533), compared to SAR 219,716 (\$58,591) for the same period in 2019. This decrease of SAR 93,964 (\$25,058) mainly reflects lower earnings resulting from lower crude oil prices and volumes sold and weaker refining and chemicals margins. This was partially offset by a decrease in settlement of taxes and zakat and cash released from working capital changes. Capital expenditures for the first nine months of 2020 declined in comparison to the same period in 2019, due to the implementation of capital spending optimization and efficiency programs in response to the current economic environment.

	Third quarter				Nine months			
	SAR		USD*		SAR		USD*	
All amounts in millions unless otherwise stated	2020	2019	2020	2019	2020	2019	2020	2019
Net cash provided by operating activities	70,481	107,642	18,794	28,705	200,858	304,331	53,561	81,155
Capital expenditures	(23,934)	(30,352)	(6,383)	(8,094)	(75,106)	(84,615)	(20,028)	(22,564)
Free cash flow	46,547	77,290	12,411	20,611	125,752	219,716	33,533	58,591

* 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 21.8% as at September 30, 2020. This principally reflects an increase in debt in connection with the deferred consideration on acquisition of SABIC, the full drawdown of a \$10 billion term loan facility and the consolidation of SABIC's net debt onto Aramco's balance sheet.

	SAR		USD*	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
All amounts in millions unless otherwise stated				
Total borrowings (current and non-current)	508,322	175,585	135,552	46,823
Cash and cash equivalents	(197,649)	(177,706)	(52,706)	(47,388)
Net debt / (cash)	310,673	(2,121)	82,846	(565)
Total equity	1,113,737	1,046,235	296,997	278,996
Total equity and net debt / (cash)	1,424,410	1,044,114	379,843	278,431
Gearing	21.8%	(0.2)%	21.8%	(0.2)%

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

3 Saudi Arabian Oil Company

Third quarter and nine months 2020

All amounts in millions unless otherwise stated

Earnings before interest, income taxes and zakat (EBIT)

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

EBIT for the third quarter ended September 30, 2020, was SAR 95,477 (\$25,461) compared to SAR 165,479 (\$44,129) during the same quarter in 2019, representing a decrease of SAR 70,002 (\$18,668). This primarily reflects the impact of lower crude oil prices and volumes sold, and weaker refining and chemicals margins.

EBIT for the nine months ended September 30, 2020, was SAR 274,905 (\$73,308) compared to SAR 512,378 (\$136,635) during the same period in 2019. This decrease of SAR 237,473 (\$63,327) was mainly due to the impact of lower crude oil prices and volumes sold, and reduced refining and chemicals margins.

	Third quarter				Nine months			
	SAR		USD*		SAR		USD*	
All amounts in millions unless otherwise stated	2020	2019	2020	2019	2020	2019	2020	2019
Net income	44,209	79,839	11,789	21,291	131,308	255,710	35,015	68,190
Finance income	(681)	(1,411)	(181)	(376)	(2,315)	(4,125)	(617)	(1,100)
Finance costs	3,407	1,623	909	433	6,906	4,402	1,842	1,174
Income taxes and zakat	48,542	85,428	12,944	22,781	139,006	256,391	37,068	68,371
Earnings before interest, income taxes and zakat	95,477	165,479	25,461	44,129	274,905	512,378	73,308	136,635

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