

Non-IFRS measures reconciliations and definitions

Aramco uses certain non-IFRS financial measures, including free cash flow and gearing, to make informed decisions about its financial position and operating performance or liquidity. 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 reporting periods 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 for the second quarter of 2021 was SAR 84,657 (\$22,576), compared to SAR 22,878 (\$6,101) for the same quarter in 2020, an increase of SAR 61,779 (\$16,475). This was principally due to higher earnings, mainly reflecting stronger crude oil prices, improved Downstream margins and the consolidation of SABIC's results, partly offset by unfavorable changes in working capital and higher cash paid for the settlement of income, zakat and other taxes. Capital expenditures increased by SAR 4,644 (\$1,239) in the second quarter of 2021, compared to the same period in 2020, due to increased spend in relation to ongoing Upstream increment projects, and higher Downstream capital expenditures.

Free cash flow for the first half of 2021 was SAR 153,206 (\$40,855), compared to SAR 79,205 (\$21,122) for the same period in 2020. This increase of SAR 74,001 (\$19,733) was mainly due to higher operating cash flow, principally driven by stronger earnings, partially offset by negative working capital movements. Capital expenditures for the first half of 2021 increased in comparison to the same period in 2020, due to higher Upstream and Downstream capital spend.

	Second quarter				Half year			
	SAR		USD*		SAR		USD*	
	2021	2020	2021	2020	2021	2020	2021	2020
All amounts in millions unless otherwise stated								
Net cash provided by operating activities	112,733	46,310	30,063	12,349	212,032	130,377	56,542	34,767
Capital expenditures	(28,076)	(23,432)	(7,487)	(6,248)	(58,826)	(51,172)	(15,687)	(13,645)
Free cash flow	84,657	22,878	22,576	6,101	153,206	79,205	40,855	21,122

* 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 net debt (total borrowings less cash and cash equivalents) to net debt 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.

Aramco's gearing ratio as at June 30, 2021 was 19.4%, compared to 23.0% as at December 31, 2020. The decrease in gearing was primarily due to higher cash and cash equivalents as at June 30, 2021, mainly driven by stronger operating cash flows and cash proceeds in connection with Aramco's stabilized crude oil pipelines transaction.

	SAR		USD*	
	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
All amounts in millions unless otherwise stated				
Total borrowings (current and non-current)	539,633	536,077	143,903	142,954
Cash & cash equivalents	(253,593)	(207,232)	(67,625)	(55,262)
Net debt	286,040	328,845	76,278	87,692
Total equity	1,189,393	1,101,094	317,171	293,625
Total equity and net debt	1,475,433	1,429,939	393,449	381,317
Gearing	19.4%	23.0%	19.4%	23.0%

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