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STMicroelectronics Reports 2020 Second Quarter Financial Results

- Q2 net revenues \$2.09 billion; gross margin 35.0%; operating margin 5.1%; net income \$90 million
- H1 net revenues \$4.32 billion; gross margin 36.5%; operating margin 7.8%; net income \$282 million
- Business outlook at mid-point: Q3 net revenues \$2.45 billion and gross margin of 36.0%

Geneva, July 23, 2020 - STMicroelectronics (NYSE: STM), a global semiconductor leader serving customers across the spectrum of electronics applications, reported U.S. GAAP financial results for the second quarter ended June 27, 2020. This press release also contains non-U.S. GAAP measures (see Appendix for additional information).

ST reported second quarter net revenues of \$2.09 billion, gross margin of 35.0%, operating margin of 5.1%, and net income of \$90 million or \$0.10 diluted earnings per share.

Jean-Marc Chery, STMicroelectronics President & CEO, commented:

- “During the second quarter, we returned to normal operations, supporting our customers’ demand and continuing to ensure the health and safety of our employees.
- “Q2 net revenues decreased 6.5% sequentially. As expected, this was due to the decline in Automotive, Analog and Imaging products, partially offset by growth in Microcontrollers, Digital and Power Discrete. Second quarter gross margin includes 310 basis points of unsaturation charges.
- “The first half of 2020 reflects year-over-year growth of 1.6%, driven by Analog, Imaging and Microcontrollers, partially offset by Automotive and Power Discrete.
- “Looking at the third quarter, we expect sequential revenue growth of 17.4% at the mid-point. This growth will be driven by engaged customer programs, new products and improved market conditions. Gross margin is expected to be 36.0% at the mid-point, including about 200 basis points of unsaturation charges.
- “We will drive the Company based on an updated plan for FY20 net revenues between \$9.25 billion and \$9.65 billion with growth in the second half over the first half to be in the range of \$610 million to \$1.01 billion. We expect this growth to be driven by engaged customer programs, new products and improved market conditions. Our CAPEX plan for 2020 is now about \$1.2 billion.”

Quarterly Financial Summary (U.S. GAAP)

(US\$ m, except per share data)	Q2 2020	Q1 2020	Q2 2019	Q/Q	Y/Y
Net Revenues	\$2,087	\$2,231	\$2,173	-6.5%	-4.0%
Gross Profit	\$730	\$846	\$830	-13.8%	-12.2%
Gross Margin	35.0%	37.9%	38.2%	-290 bps	-320 bps
Operating Income	\$106	\$231	\$196	-53.9%	-45.8%
Operating Margin	5.1%	10.4%	9.0%	-530 bps	-390 bps
Net Income	\$90	\$192	\$160	-53.1%	-43.7%
Diluted Earnings Per Share	\$0.10	\$0.21	\$0.18	-52.4%	-44.4%

Second Quarter 2020 Summary Review

Net Revenues By Product Group (US\$ m)	Q2 2020	Q1 2020	Q2 2019	Q/Q	Y/Y
Automotive and Discrete Group (ADG)	727	753	885	-3.5%	-17.8%
Analog, MEMS and Sensors Group (AMS)	624	852	694	-26.8%	-10.1%
Microcontrollers and Digital ICs Group (MDG)	733	623	591	17.7%	24.1%
Others	3	3	3	-	-
Total Net Revenues	2,087	2,231	2,173	-6.5%	-4.0%

Net revenues totaled \$2.09 billion, representing a year-over-year decrease of 4.0%. On a year-over-year basis, the Company recorded lower sales in Imaging, Automotive, and MEMS, partially offset by higher sales in Microcontrollers, Digital, Analog and Power Discrete. Year-over-year sales to Distribution increased 9.7% and to OEMs decreased 9.7%. On a sequential basis, net revenues decreased 6.5%, 380 basis points better than the mid-point of the Company's guidance. By product group, revenues sequentially increased in MDG while ADG and AMS decreased.

Gross profit totaled \$730 million, representing a year-over-year decrease of 12.2%. **Gross margin** of 35.0% decreased 320 basis points year-over-year, mainly due to unsaturation charges, including the impact of COVID-19 workforce related restrictions, and price pressure. Second quarter gross margin was 40 basis points higher than the mid-point of the Company's guidance.

Operating income decreased 45.8% to \$106 million, compared to \$196 million in the year-ago quarter. The Company's **operating margin** decreased 390 basis points on a year-over-year basis to 5.1% of net revenues, compared to 9.0% in the 2019 second quarter.

By **product group**, compared with the year-ago quarter:

Automotive and Discrete Group (ADG):

- Revenue decreased in Automotive and increased in Power Discrete.
- Operating profit decreased by 77.5% to \$16 million. Operating margin was 2.3% compared to 8.2%.

Analog, MEMS and Sensors Group (AMS):

- Revenue decreased in MEMS and Imaging and increased in Analog.
- Operating profit decreased by 24.1% to \$56 million. Operating margin was 9.0% compared to 10.7%.

Microcontrollers and Digital ICs Group (MDG):

- Revenue increased in both Microcontrollers and in Digital.
- Operating profit increased by 160.6% to \$117 million. Operating margin was 15.9% compared to 7.6%.

Unused capacity charges are included under the group "Others".

Net income and **diluted earnings per share** decreased to \$90 million and \$0.10, respectively, compared to \$160 million and \$0.18, respectively, in the year-ago quarter.

Cash Flow and Balance Sheet Highlights

(US\$ m)	Q2 2020	Q1 2020	Q2 2019	Trailing 12 Months		
				Q2 2020	Q2 2019	TTM Change
Net cash from operating activities	387	399	324	1,990	1,694	17.5%
Free cash flow (non-U.S. GAAP)	28	113	(67)	772	343	125.1%

Capital expenditure payments, net of proceeds from sales, were \$312 million in the second quarter. In the year-ago quarter, capital expenditures, net, were \$372 million.

Inventory at the end of the quarter was \$1.96 billion, up from \$1.89 billion in the prior year quarter. Day sales of inventory at quarter-end was 129 days, same as in the prior year quarter.

Free cash flow (non-U.S. GAAP) was positive \$28 million in the second quarter, compared to negative \$67 million in the year-ago quarter.

In the second quarter, the Company paid cash dividends totaling \$37 million and executed a \$63 million share buy-back as part of its previously announced share repurchase program.

ST's net financial position (non-U.S. GAAP) was \$570 million at June 27, 2020 compared to \$668 million at March 28, 2020 and reflected total liquidity of \$2.62 billion and total financial debt of \$2.05 billion.

Business Outlook

The Company's guidance, at the mid-point, for the 2020 third quarter is:

- Net revenues are expected to be \$2.45 billion, an increase of 17.4% sequentially, plus or minus 350 basis points;
- Gross margin of about 36.0%, plus or minus 200 basis points;
- This outlook is based on an assumed effective currency exchange rate of approximately \$1.12 = €1.00 for the 2020 third quarter and includes the impact of existing hedging contracts.
- The third quarter will close on September 26, 2020.

Conference Call and Webcast Information

STMicroelectronics will conduct a conference call with analysts, investors and reporters to discuss its second quarter 2020 financial results and current business outlook today at 9:30 a.m. Central European Time (CET) / 3:30 a.m. U.S. Eastern Time (ET). A live webcast (listen-only mode) of the conference call will be accessible at ST's website, <http://investors.st.com>, and will be available for replay until August 7, 2020.

Use of Supplemental Non-U.S. GAAP Financial Information

This press release contains supplemental non-U.S. GAAP financial information.

Readers are cautioned that these measures are unaudited and not prepared in accordance with U.S. GAAP and should not be considered as a substitute for U.S. GAAP financial measures. In addition, such non-U.S. GAAP financial measures may not be comparable to similarly titled information from other companies.

See the Appendix of this press release for a reconciliation of the Company's non-U.S. GAAP financial measures to their corresponding U.S. GAAP financial measures. To compensate for these limitations, the supplemental non-U.S. GAAP financial information should not be read in isolation, but only in conjunction with the Company's consolidated financial statements prepared in accordance with U.S. GAAP.

Forward-looking Information

Some of the statements contained in this release that are not historical facts are statements of future expectations and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended) that are based on management's current views and assumptions, and are conditioned upon and also involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those anticipated by such statements, due to, among other factors:

- *changes in global trade policies, including the adoption and expansion of tariffs and trade barriers, that could affect the macro-economic environment and adversely impact the demand for our products;*
- *uncertain macro-economic and industry trends, which may impact end-market demand for our products;*
- *customer demand that differs from projections;*
- *the ability to design, manufacture and sell innovative products in a rapidly changing technological environment;*
- *changes in economic, social, public health, labor, political, or infrastructure conditions in the locations where we, our customers, or our suppliers operate, including as a result of macroeconomic or regional events, military conflicts, social unrest, labor actions, or terrorist activities;*
- *unanticipated events or circumstances, which may impact our ability to execute our plans and/or meet the objectives of our R&D and manufacturing programs, which benefit from public funding;*
- *the Brexit vote and the impact of the withdrawal of the U.K. may adversely affect business activity, political stability and economic conditions in the U.K., the Eurozone, the EU and elsewhere. The U.K. withdrawal from the EU took place on January 31, 2020 and the UK majority government is expected to complete Brexit even if no formal withdrawal agreement is in place with the EU by the end of the transition period running until December 31, 2020. The specific*

terms of the U.K. withdrawal from the EU are still uncertain and while we do not have material operations in the U.K. and have not experienced any material impact from Brexit on our underlying business to date, we cannot predict its future implications;

- financial difficulties with any of our major distributors or significant curtailment of purchases by key customers;*
- the loading, product mix, and manufacturing performance of our production facilities and/or our required volume to fulfill capacity reserved with suppliers or third party manufacturing providers;*
- availability and costs of equipment, raw materials, utilities, third-party manufacturing services and technology, or other supplies required by our operations;*
- the functionalities and performance of our IT systems, which are subject to cybersecurity threats and which support our critical operational activities including manufacturing, finance and sales, and any breaches of our IT systems or those of our customers or suppliers;*
- theft, loss, or misuse of personal data about our employees, customers, or other third parties, and breaches of global and local privacy legislation, including the EU's General Data Protection Regulation ("GDPR");*
- the impact of intellectual property ("IP") claims by our competitors or other third parties, and our ability to obtain required licenses on reasonable terms and conditions;*
- changes in our overall tax position as a result of changes in tax rules, new or revised legislation, the outcome of tax audits or changes in international tax treaties which may impact our results of operations as well as our ability to accurately estimate tax credits, benefits, deductions and provisions and to realize deferred tax assets;*
- variations in the foreign exchange markets and, more particularly, the U.S. dollar exchange rate as compared to the Euro and the other major currencies we use for our operations;*
- the outcome of ongoing litigation as well as the impact of any new litigation to which we may become a defendant;*
- product liability or warranty claims, claims based on epidemic or delivery failure, or other claims relating to our products, or recalls by our customers for products containing our parts;*
- natural events such as severe weather, earthquakes, tsunamis, volcano eruptions or other acts of nature, the effects of climate change, health risks and epidemics such as the novel coronavirus COVID-19 in locations where we, our customers or our suppliers operate;*
- industry changes resulting from vertical and horizontal consolidation among our suppliers, competitors, and customers; and*
- the ability to successfully ramp up new programs that could be impacted by factors beyond our control, including the availability of critical third party components and performance of subcontractors in line with our expectations.*

Such forward-looking statements are subject to various risks and uncertainties, which may cause actual results and performance of our business to differ materially and adversely from the forward-looking statements. Certain forward-looking statements can be identified by the use of forward looking terminology, such as "believes," "expects," "may," "are expected to," "should," "would be," "seeks" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions.

Some of these risk factors are set forth and are discussed in more detail in "Item 3. Key Information — Risk Factors" included in our Annual Report on Form 20-F for the year ended December 31, 2019, as filed with the SEC on February 26, 2020. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this release as anticipated, believed, or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set forth in this release to reflect subsequent events or circumstances.

About STMicroelectronics

At ST, we are 46,000 creators and makers of semiconductor technologies mastering the semiconductor supply chain with state-of-the-art manufacturing facilities. An independent device manufacturer, we work with our 100,000 customers and thousands of partners to design and build products, solutions, and ecosystems that address their challenges and opportunities, and the need to support a more sustainable world. Our technologies enable smarter mobility, more efficient power and energy management, and the wide-scale deployment of the Internet of Things and 5G technology. Further information can be found at www.st.com.

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STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF INCOME

(in millions of U.S. dollars, except per share data (\$))

	Three months ended	
	June 27, 2020	June 29, 2019
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Net sales	2,084	2,160
Other revenues	3	13
NET REVENUES	2,087	2,173
Cost of sales	(1,357)	(1,343)
GROSS PROFIT	730	830
Selling, general and administrative	(259)	(269)
Research and development	(373)	(381)
Other income and expenses, net	12	18
Impairment, restructuring charges and other related closure costs	(4)	(2)
Total operating expenses	(624)	(634)
OPERATING INCOME	106	196
Interest expense, net	(4)	-
Other components of pension benefit costs	(3)	(3)
Income (loss) on equity-method investments	-	-
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTEREST	99	193
Income tax expense	(8)	(33)
NET INCOME	91	160
Net income attributable to noncontrolling interest	(1)	-
NET INCOME ATTRIBUTABLE TO PARENT COMPANY	90	160
EARNINGS PER SHARE (BASIC) ATTRIBUTABLE TO PARENT COMPANY STOCKHOLDERS	0.10	0.18
EARNINGS PER SHARE (DILUTED) ATTRIBUTABLE TO PARENT COMPANY STOCKHOLDERS	0.10	0.18
NUMBER OF WEIGHTED AVERAGE SHARES USED IN CALCULATING DILUTED EPS	911.1	901.7

STMicroelectronics N.V.

CONSOLIDATED STATEMENTS OF INCOME

(in millions of U.S. dollars, except per share data (\$))

	Six months ended	
	June 27, 2020	June 29, 2019
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Net sales	4,312	4,232
Other revenues	6	17
NET REVENUES	4,318	4,249
Cost of sales	(2,743)	(2,601)
GROSS PROFIT	1,575	1,648
Selling, general and administrative	(529)	(540)
Research and development	(748)	(749)
Other income and expenses, net	48	51
Impairment, restructuring charges and other related closure costs	(9)	(2)
Total operating expenses	(1,238)	(1,240)
OPERATING INCOME	337	408
Interest income (expense), net	(3)	2
Other components of pension benefit costs	(6)	(7)
Income (loss) on equity-method investments	-	1
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTEREST	328	404
Income tax expense	(47)	(65)
NET INCOME	281	339
Net income attributable to noncontrolling interest	1	(1)
NET INCOME ATTRIBUTABLE TO PARENT COMPANY	282	338
EARNINGS PER SHARE (BASIC) ATTRIBUTABLE TO PARENT COMPANY STOCKHOLDERS	0.32	0.38
EARNINGS PER SHARE (DILUTED) ATTRIBUTABLE TO PARENT COMPANY STOCKHOLDERS	0.31	0.37
NUMBER OF WEIGHTED AVERAGE SHARES USED IN CALCULATING DILUTED EPS	913.9	902.3

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CONSOLIDATED BALANCE SHEETS

As at
In millions of U.S. dollars

	June 27, 2020	March 28, 2020	December 31, 2019
	(Unaudited)	(Unaudited)	(Audited)
ASSETS			
Current assets:			
Cash and cash equivalents	1,800	2,028	2,597
Restricted cash	-	10	10
Short-term deposits	687	537	4
Marketable securities	134	135	133
Trade accounts receivable, net	1,171	1,294	1,380
Inventories	1,963	1,772	1,691
Other current assets	448	500	442
Total current assets	6,203	6,276	6,257
Goodwill	197	175	162
Other intangible assets, net	312	298	299
Property, plant and equipment, net	4,194	4,022	4,007
Non-current deferred tax assets	710	694	695
Long-term investments	11	11	11
Other non-current assets	535	454	437
	5,959	5,654	5,611
Total assets	12,162	11,930	11,868
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debt	879	171	173
Trade accounts payable	1,079	960	950
Other payables and accrued liabilities	829	856	831
Dividends payable to stockholders	119	6	58
Accrued income tax	69	63	52
Total current liabilities	2,975	2,056	2,064
Long-term debt	1,172	1,871	1,899
Post-employment benefit obligations	447	436	445
Long-term deferred tax liabilities	38	36	19
Other long-term liabilities	339	321	330
	1,996	2,664	2,693
Total liabilities	4,971	4,720	4,757
Commitment and contingencies			
Equity			
Parent company stockholders' equity			
Common stock (preferred stock: 540,000,000 shares authorized, not issued; common stock: Euro 1.04 nominal value, 1,200,000,000 shares authorized, 911,204,420 shares issued, 892,596,726 shares outstanding)	1,157	1,157	1,157
Capital surplus	3,061	3,029	2,992
Retained earnings	2,797	2,938	2,747
Accumulated other comprehensive income	481	410	475
Treasury stock	(372)	(390)	(328)
Total parent company stockholders' equity	7,124	7,144	7,043
Noncontrolling interest	67	66	68
Total equity	7,191	7,210	7,111
Total liabilities and equity	12,162	11,930	11,868

STMicroelectronics N.V.**SELECTED CASH FLOW DATA**

Cash Flow Data (in US\$ millions)	Q2 2020	Q1 2020	Q2 2019
Net Cash from operating activities	387	399	324
Net Cash used in investing activities	(509)	(821)	(391)
Net Cash used in financing activities	(117)	(143)	(123)
Net Cash decrease	(238)	(569)	(188)
Selected Cash Flow Data (in US\$ millions)	Q2 2020	Q1 2020	Q2 2019
Depreciation & amortization	223	211	212
Net payment for Capital expenditures	(312)	(266)	(372)
Dividends paid to stockholders	(37)	(53)	(53)
Change in inventories, net	(175)	(96)	(116)

Appendix
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Supplemental Financial Information

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net Revenues By Market Channel (%)					
Total OEM	66%	75%	72%	72%	70%
Distribution	34%	25%	28%	28%	30%
€/\$ Effective Rate	1.10	1.11	1.12	1.14	1.14
Product Group Data (US\$ m)					
Automotive & Discrete Group (ADG)					
- Net Revenues	727	753	924	894	885
- Operating Income	16	23	113	76	73
Analog, MEMS & Sensors Group (AMS)					
- Net Revenues	624	852	1,085	968	694
- Operating Income	56	177	281	198	74
Microcontrollers & Digital ICs Group (MDG)					
- Net Revenues	733	623	742	688	591
- Operating Income	117	71	119	108	45
Others ^(a)					
- Net Revenues	3	3	3	3	3
- Operating Income (Loss)	(83)	(40)	(53)	(46)	4
Total					
- Net Revenues	2,087	2,231	2,754	2,553	2,173
- Operating Income	106	231	460	336	196

^(a) Net revenues of Others includes revenues from sales assembly services and other revenue. Operating income (loss) of Others includes items such as unused capacity charges, including reduced manufacturing activity due to COVID-19, impairment, restructuring charges and other related closure costs, management reorganization costs, phase out and start-up costs, and other unallocated expenses such as: strategic or special research and development programs, certain corporate-level operating expenses, patent claims and litigations, and other costs that are not allocated to product groups, as well as operating earnings of other products. Others includes:

(US\$ m)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Unused Capacity Charges	64	34	29	28	7
Impairment & Restructuring Charges	4	5	3	-	2

(Appendix – continued)
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Supplemental Non-U.S. GAAP Financial Information
U. S. GAAP – Non-U.S. GAAP Reconciliation

The supplemental non-U.S. GAAP information presented in this press release is unaudited and subject to inherent limitations. Such non-U.S. GAAP information is not based on any comprehensive set of accounting rules or principles and should not be considered as a substitute for U.S. GAAP measurements. Also, our supplemental non-U.S. GAAP financial information may not be comparable to similarly titled non-U.S. GAAP measures used by other companies. Further, specific limitations for individual non-U.S. GAAP measures, and the reasons for presenting non-U.S. GAAP financial information, are set forth in the paragraphs below. To compensate for these limitations, the supplemental non-U.S. GAAP financial information should not be read in isolation, but only in conjunction with our consolidated financial statements prepared in accordance with U.S. GAAP.

The Company believes that these non-U.S. GAAP financial measures provide useful information for investors and management because they offer, when read in conjunction with the Company's U.S. GAAP financials, (i) the ability to make more meaningful period-to-period comparisons of the Company's on-going operating results, (ii) the ability to better identify trends in the Company's business and perform related trend analysis, and (iii) to facilitate a comparison of the Company's results of operations against investor and analyst financial models and valuations, which may exclude these items.

Net Financial Position (non-U.S. GAAP measure)

Net Financial Position, not a U.S. GAAP measure, represents the difference between our total liquidity and our total financial debt. Our total financial resources include cash and cash equivalents, marketable securities, restricted cash and short-term deposits, and our total financial debt includes short-term debt, including bank overdrafts, and long-term debt, as represented in our Consolidated Balance Sheets.

We believe our Net Financial Position provides useful information for investors and management because it gives evidence of our global position either in terms of net indebtedness or net cash by measuring our capital resources based on cash and cash equivalents, restricted cash, short-term deposits and marketable securities and the total level of our financial indebtedness. In addition, our definition of Net Financial Position may differ from definitions used by other companies and therefore comparability may be limited.

(US\$ m)	Jun 27 2020	Mar 28 2020	Dec 31 2019	Sep 28 2019	Jun 29 2019
Cash and cash equivalents	1,800	2,028	2,597	2,345	2,119
Restricted cash	-	10	10	60	60
Short term deposits	687	537	4	-	-
Marketable securities	134	135	133	133	333
Total liquidity	2,621	2,710	2,744	2,538	2,512
Short-term debt	(879) ⁽¹⁾	(171)	(173)	(171)	(174)
Long-term debt ⁽²⁾	(1,172)	(1,871)	(1,899)	(2,019)	(2,030)
Total financial debt	(2,051)	(2,042)	(2,072)	(2,190)	(2,204)
Net Financial Position	570	668	672	348	308

⁽¹⁾ Tranche A of our 2017 convertible bonds was reclassified to short-term debt in line with contractual terms.

⁽²⁾ Long-term debt contains standard conditions but does not impose minimum financial ratios. Also, committed credit facilities for \$1.1 billion equivalent, including a €500 million long-term line with the European Investment Bank, are currently undrawn.

(Appendix – continued)
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Free Cash Flow (non-U.S. GAAP measure)

Free Cash Flow, which is a non-U.S. GAAP measure, is defined as (i) net cash from operating activities plus (ii) net cash used in investing activities, excluding payment for purchases of (and proceeds from matured) marketable securities and net investment in short-term deposits, which are considered as temporary financial investments. The result of this definition is ultimately net cash from operating activities plus payment for purchase and proceeds from sale of tangible, intangible and financial assets, proceeds received in the sale of businesses and cash paid for business acquisitions.

We believe Free Cash Flow provides useful information for investors and management because it measures our capacity to generate cash from our operating and investing activities to sustain our operations. Free Cash Flow does not represent total cash flow since it does not include the cash flows generated by or used in financing activities.

Free Cash Flow reconciles with the total cash flow and the net cash increase (decrease) by including the payment for purchases of (and proceeds from matured) marketable securities and net investment in short-term deposits, the net cash from (used in) financing activities and the effect of changes in exchange rates. In addition, our definition of Free Cash Flow may differ from definitions used by other companies.

(US\$ m)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net cash from operating activities	387	399	775	429	324
Net cash used in investing activities	(509)	(821)	(314)	(59)	(391)
Payment for purchase of (and proceeds from matured) marketable securities and net investment in short-term deposits	150	535	-	(200)	-
Free Cash Flow	28	113	461	170	(67)