

Calculation Guide

In-Kingdom Total Value Add (iktva)

iktva Certification | 2022

أرامكو السعودية
saudi aramco



Objective of This Guideline

This guideline provides the user with the procedure to accurately calculate iktva, in addition to a breakdown of the details pertaining to each iktva component.

Table of Contents

iktva Goals	4
iktva Formula Overview	4
New Updates	5
General Instructions	6
Component A	11
Component B	17
Component C	20
Component D	25
Component R	29
Component E	33
Component I <u>(New)</u>	37

iktva Goals

The goals of iktva is to improve reliability and develop globally competitive industrial base.



70%
Local Content



Increase
Exports



Thousands
Jobs

iktva Formula Overview

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Costs
Component I (New)	Includes Incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Main New Updates

This year, iktva is announcing two major enhancements. The first is the incorporation of component I representing new incentives to drive key focus areas. The second major enhancement is the launch of the iktva portal solution, aimed to create a more optimal and efficient survey completion process.

(1) Component I

The iktva formula has been enhanced to drive emerging key focus areas. This component represents all Incentive bonuses including Exports (Previously a standalone component). Below is a brief description of all incentives under component I. A detailed explanation can be found on [page 28](#).

- **Environment, Social & Governance (ESG):** ESG refers to the areas within a company's operation that characterize sustainable, responsible or ethical investments. Engaging in ESG practices locally is critical in driving an overall more efficient supply chain. It is important for our suppliers to be aware of the benefits of ESG and work continuously to improve their ESG performance within their company, targeting the risk areas within their operation. Therefore, iktva will be rewarding a bonus to companies who receive an ESG certificate/score from one of the approved 3rd party ESG evaluation platforms.
 - **Cybersecurity (CS):** Cybersecurity is critical in protecting a company's sensitive data, and all other categories of data, from breaches. Compliance with cybersecurity standards and regulations is critical in mitigating risks associated with cybercrimes. Thus, CS has been added to the formula as a bonus factor and is captured in the iktva survey upon submitting a Cybersecurity Compliance Certificate (CCC) to the iktva auditor.
 - **Regional Headquarters (RHQ):** In order to support the prosperity of the Kingdom's economy in alignment with the Vision 2030 and to accelerate the RHQ program launched by the Ministry of Investment (MISA), companies holding an RHQ license will be rewarded a bonus in iktva.
- Exports (X):** Exports play a major role in the economic growth of our Kingdom. Previously, the exports bonus was capped at 10%, however to continue encouraging increased exports, and reward suppliers for their full efforts, this cap has been removed.

(2) iktva Portal Solution (iPS)

This year, iktva has achieved a major development by launching the iktva Portal Solution (iPS), which contains five modules, one of which is the iktva certification module. The portal will now be the platform used for the annual iktva survey submission and all relevant documents. This portal will enable an overall more optimal and efficient certification process, by simplifying the iktva score calculation and certification issuance. It will allow auditors to verify and approve

companies' input more effortlessly and effectively. In addition, the portal will facilitate more enriched data analysis through advance tools. A step by step guide for the iktva Portal Solution can be found on the website [insert website link].

General Instructions

Financials:

- Companies will receive scores at two levels: Saudi Aramco level & Kingdom level.
- All financial figures should be reported in United States Dollars (USD).
- Reported figures shall correspond to the company's audited fiscal year-end financial statements. If a company changes its fiscal year-end, it should consult with Saudi Aramco for instruction on how to properly complete its survey based on varying fiscal year-ends.
- Reported revenues and costs shall be consistent with the reported documents following the International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) in Saudi Arabia. If the company does not recognize an item as revenue or an expense in its income statement, then it should not be claimed in the iktva report.
- The revenue and cost information provided in the iktva survey shall be on an accrual basis.
- The company will need to eliminate any intercompany transactions between related entities that are included in the survey when completing the consolidated iktva survey. Related entities that are outside the scope of the iktva survey are considered as other companies.

Only IK incorporated / registered entities can be consolidated in Iktva survey. If a local entity has OOK branch, costs related to OOK branch should not be reported in Iktva survey as it is not adding any In-Kingdom value.

Annual iktva Submission KPI Tracking:

- Progression of the survey submission will be monitored as follows from the date of issuance / release of guidelines from Aramco:
 - Company: (30) days from the start of the survey (first time filer 45 days, repeat filer 25 days)
 - Auditor: (25) days from receiving the survey
- Aramco may allow specific submission approvals solely on its own discretion based on difficulties faced by the entities e.g. non-availability of latest audited financial statements as statutory audit is in progress. Any exception needs to be approved by Saudi Aramco at least 15 days before expiry of above-mentioned period.

iktva Submissions:

- Submitting shall be inclusive of all IK & specific OOK operations and revenues relocated to Saudi Arabia and KSA. The submissions shall include the full details related to the entities doing business with Saudi Aramco and/or other Saudi customers.
- Companies are required to submit an iktva survey for each business segment or entity.
- Aramco joint ventures should file a separate survey from their owners and should not be consolidated within any other company's survey
- Companies submitting consolidated iktva surveys should receive written permission from the consolidated entities, as their iktva score might affect the consolidated entities. The written permission must be shared with iktva auditors at the beginning of the iktva audit.
- If a company had previously submitted a consolidated survey, it should remain to do the same. However, if a company has submitted single surveys of all related entities or business segments, the company is allowed to request having the single surveys combined into a consolidated survey. Companies should contact Saudi Aramco at iktvasurveyinfo@aramco.com upon changing the submission methodology from single to consolidated submission and vice versa.
- Companies with partially owned Joint Ventures (JVs), affiliates, or subsidiaries that file a consolidated return will only recognize their ownership share based on the

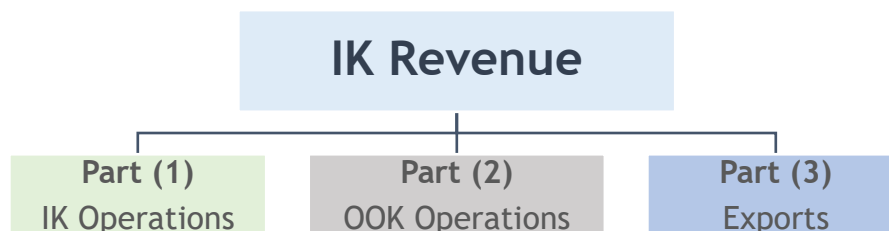
related companies' iktva results. As an example, if the company owns 35% of a JV then the dollar amounts earned for each category is weighted by the 35%. If the ownership is less than 20%, then the related entity can be excluded at the company's option.

- > Revenue derived from partially owned subsidiaries, affiliates and JVs (in Saudi Aramco's Annual Report) of Saudi Aramco should not be included in the Saudi Aramco category. Information relating to Saudi Aramco's subsidiaries can be found in latest audited financial statements of Saudi Aramco.
- > All amounts reported in the iktva surveys need to be supported by appropriate and auditable documentation which will undergo the same scrutiny as the amounts presented in the company's year-end audited financial statements.
- > Annual iktva survey must be audited through a third-party auditor. A list of trained and approved auditors can be found at: www.iktva.sa
- > Self-certification: Companies with only Out-Of-Kingdom (OOK) operations and/or has minimal In-Kingdom (IK) content (less than 5%) should request approval from iktva team. For further details, please contact: iktvasurveyinfo@aramco.com

Capturing Revenue in iktva

The purpose of capturing revenue is to recognize costs related to in kingdom (IK) and out of kingdom (OOK) revenues received from Saudi Aramco. This allows Saudi Aramco to identify the overall allocation of its spend that contributes to the local economy.

Revenue is categorized into IK Revenue, OOK Revenue and Exports. This includes revenue generated by goods and services provided to Saudi Aramco and other IK customers, as well as exports made by IK operations.



Part (1): IK Revenue Derived from IK Operations

This category captures the revenue from customers-based IK, served by IK operations (Local Goods & Services). If the customer is Saudi Aramco (directly or indirectly*) then the revenue will be added in both the Saudi Aramco's section and total KSA section. Revenue from other IK customers shall only be added under the Total KSA section.

Part (2): IK Revenue Derived from OOK Operations

This category captures the revenue from customers-based IK, served by OOK operations (OOK Goods & Services). This applies to the OOK revenue generated from sales to Saudi Aramco or other IK customers as well as local agents that resell a company's imported finished product. This type of revenue is not generally reported in audited financial statements of the local entity, however, being the OOK group company revenue earned from IK customers, it needs to be added in the Iktva Survey.

Part (3): Exports Revenue

This category captures exports defined as good and/or service produced from IK operations and sold to OOK end users.

The economic activity of the transaction(s) should involve the transfer of goods or the rendering of services to the OOK end users. Exported goods or services resold to KSA based customers do not qualify as exports. End customer must be located OOK. Bill-to address only does not imply that the transaction qualifies for export revenue in iktva. Specially in-case of services, the related technical team of local IK entity may provide services within or outside Saudi Arabia for an OOK customer e.g. providing consultancy support through remote basis or may physically work in customer OOK location. Eventually, the OOK customer pays the local IK entity for such services.

***Direct & Indirect Revenue**

Revenue figures from Saudi Aramco shall include revenue received directly and indirectly from Saudi Aramco. If the ship-to address, unique product characteristics, project location, or other facts and circumstances link the revenue to Saudi Aramco's IK operations, then the revenue should be included as part of the Saudi Aramco revenue and the Total KSA revenue amounts.

Example:

- If the company is working as a subcontractor on a Saudi Aramco project, it should report revenue from this contract as Saudi Aramco revenue even though the company may invoice and receive payment from the main contractor. The same concept applies if the company sells goods and/or services through a broker or an agent to Saudi Aramco (including Aramco Overseas Company and Aramco Services Company).
- If a Company has direct Purchase Order with Saudi Aramco, it would qualify as direct revenues with Saudi Aramco.

Recognizing Costs Related to Revenue from Saudi Aramco

There are two methods that can be used to recognize the costs associated with Saudi Aramco localized Revenue:

- **Direct Costs:** The company is able to link the costs directly with Saudi Aramco business.
- **Revenue Ratio:** Multiplying the total KSA component costs with the revenue ratio will allow companies to extract costs associated with Saudi Aramco. The formula for revenue ratio is defined below.

$$\text{Revenue Ratio} = \frac{\text{Saudi Aramco IK Rev}}{\text{KSA IK Rev} + \text{Exports Rev}}$$

Estimation of Company Costs

As some sectors nature cannot be traced directly through company financials, iktva allows the assumption of costs for categories C, D, and R. Estimated costs must be reasonable and provided to the iktva auditor for approval. Estimation of costs for assumptions will be capped at 1.5% of the total cost for each category of training and development, supplier development, and research and development. Supporting documentation must be provided to justify and validate each assumption. More information of the documents required for assumptions can be found in the respective sections.

Component A

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Goods and Services

Goods and Services (G&S) in iktva

Component A includes cost of goods sold, cost of sales, and cost of services, which are not limited to costs used to derive gross margins. It captures purchases from all IK companies regardless of how they are classified on a traditional income statement. This includes procurement from local companies, such as: general and administrative, selling, marketing, and financing charges. etc.

Process of Capturing IK G&S

Top 70% of IK G&S Purchased

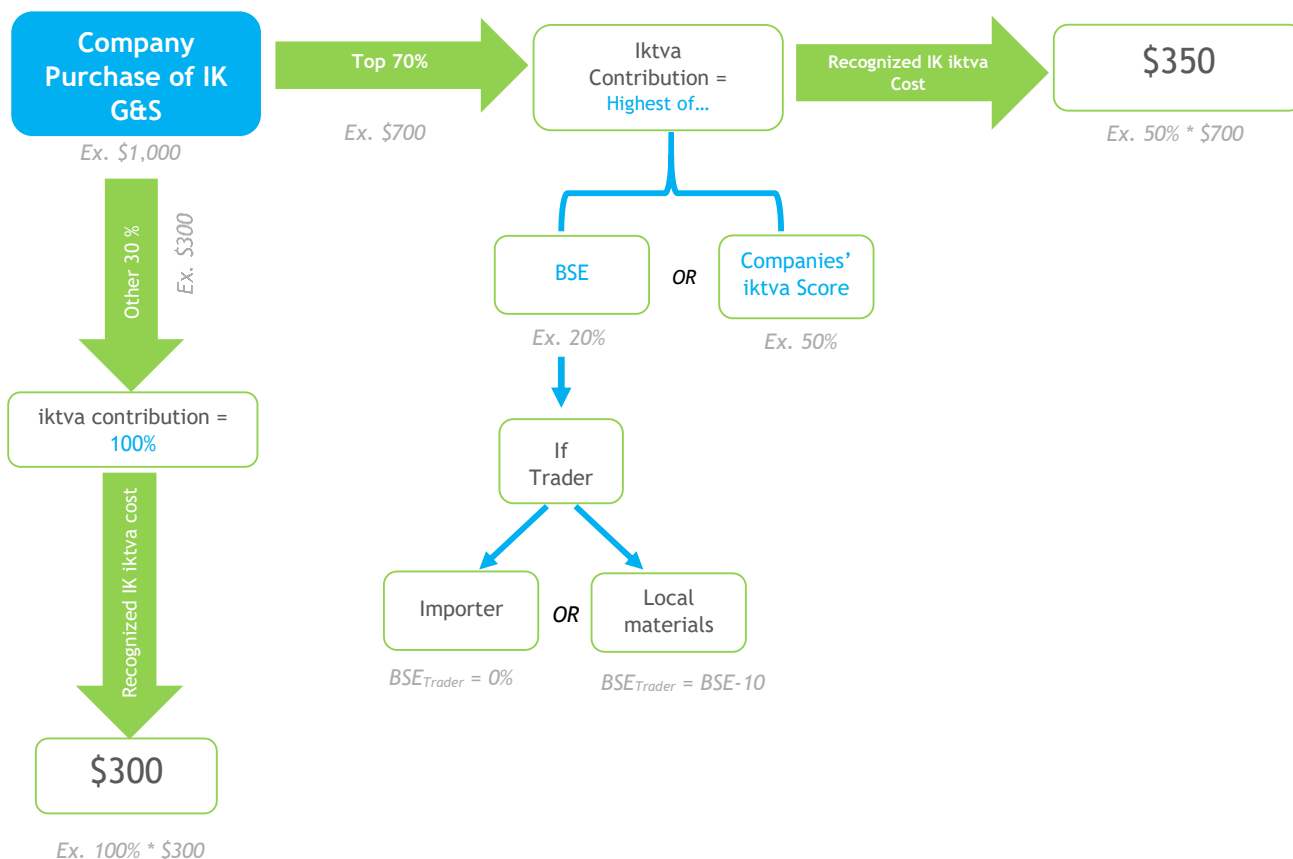
The top 70% of the IK G&S purchased may have an iktva contribution weight equal to the highest of either: the Business Segment Estimate (BSE) or the IK suppliers' actual iktva score. iktva participants are allowed to use the BSE if the IK supplier of the G&S does not have an iktva score or the iktva score is lower than the BSE. If the supplier is a trader and provides imported goods manufactured OOK, then the supplier would be categorized as an importer and the BSE is equal to 0%. If a supplier is a trader and provides imported goods manufactured using forms of IK value adding activities, or the original manufacturer is based IK, then the weight of the iktva contribution will equal the BSE minus 10%.

Example:

- If the total value of IK G&S purchased is \$1000, then the top 70% will be equal to \$700. If the supplier's actual iktva score is 50% (for current or past year), and the BSE is 20%, the iktva score will be used as the weight of the iktva contribution as it is the highest of the two. The recognized IK iktva cost would then equal to $0.5 * \$700 = \350 .
- If the supplier's iktva score is 15%, or the supplier does not have an iktva score, and the BSE = 20% then the BSE would be used as the weight of the iktva contribution. The recognized IK iktva cost would then equal to $0.2 * \$700 = \140
- If the supplier is a trader categorized as an importer, the BSE = 0% and the recognized IK iktva cost would be \$0. If the supplier is a trader and provides the G&S using local materials, and the BSE of the local material = 20%, then the weight of the contribution would be $20\% - 10\% = 10\%$. The recognized IK iktva cost would then equal to $0.1 * \$700 = \70

Other 30% of IK Goods and Services Purchased

Upon submitting 70% of companies IK purchases, the other 30% earn a 100% iktva contribution. For example, if the total value of IK goods and services is \$1000, the other 30% will hold a value of \$300. The iktva contribution will thus be \$300.



What is Excluded from Component (A)?

- > Spend with OOK companies
- > Contract penalties
- > Government penalties
- > Intercompany costs if consolidated
- > Costs reported in other sections
- > Non-cash transactions (provisions)
- > Dividend payments
- > Refundable VAT
- > Capital expenditure

Significant Changes in Inventory Under Component (A):

As stated previously, the iktva survey shall be prepared on accrual basis. Therefore, consumption of goods shall be reported and not the purchase of goods. However, as some companies may not be able to report goods from IK suppliers based on consumption data, purchase data may be used. An adjustment must be made when using purchase data to convert that data to consumption, as purchase cycles may differ from actual consumption. Hence, the significant changes in inventory line was added to accommodate for such cases. This is only applicable if changes in inventory are significant and have a major impact on iktva (defined by iktva authorized auditors).

Example:

Positive Adjustment (+USD 500K): Assuming an entity has purchased inventories during the year 2020 amounting to USD 500K but they have reported in their audited financial statements a cost of USD 1 million. This means that they have reported a total consumption of USD 1 million which is calculated as (USD 500K consumed from opening inventory purchased in prior years + USD 500K purchased and consumed during current year).

Negative Adjustment (-USD 500K): Entity has purchased inventories during the year 2020 amounting to USD 1 million but they reported in their audited financial statements a cost of USD 500K. This means that they have reported a total consumption of USD 500K (as actual amount of inventory consumed during the year) and remaining inventory would be used in subsequent years and will be reported in their costs in subsequent years.

Adjusted amount will be added under significant changes in inventory section, with the correct iktva contribution of the inventories or if the iktva score cannot be determined a weighted average of the top 70% suppliers iktva contribution will be used. The entity also needs to see its ratio of IK and OOK purchases during the year while making an adjustment for significant inventory changes.

Saudi Government Payments

Those payments assigned an iktva ratio of 100%. They include nonrefundable / not adjustable government payments including: taxes paid in Kingdom (by IK entities or OOK group entities), zakat, withholding taxes, customs, duties, nonrefundable VAT, expat related fees, etc.

Payroll related government payments (e.g. GOSI) should be excluded and instead reported as part of compensation costs in component B.

Financing Costs

Those payments assigned an iktva ratio of 70%. They include any interest and finance charges paid to local banks, lending institutions, lessors, etc. However, they do not include principal payments made to these entities, as the principle payment will be treated as a normal cost or investment for the company.

Capital Expenditure

The iktva survey includes capital expenditures the company has made for its IK operations. CAPEX is treated the same as standard accounting practices. In the annual iktva survey, disposals should only be deducted if included in previous years' iktva capital expenditures.

Estimated useful lives and depreciation methodology, are calculated for as follows: all of the assets acquired during a particular year (even including land which normally is not depreciated) are depreciated or amortized on a straight-line basis over a 10-year life regardless of their actual useful life. The depreciated amount is added in Component (A).

Expat Compensation

iktva accounts for (37%) of the total allowed cost under expat compensation.

GOSI registered expat staff salaries should be claimed in labor section. If a company wants to claim Non-GOSI registered staff salaries in labor section, they need to provide the following documents to iktva auditor:

- Total of such salary's expenses relating to Non-GOSI staff,
- If such staff are provided by Group Company,
- Nature of visa for such staff (e.g. business visit visa)
- Such staff working on-shore or off shore.
- Any other information, which can be of material significance.

Component B

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Saudi Compensation in iktva

Compensation costs in iktva captures all costs related to Saudi employees. The amounts should come from the company's payroll records and it should include: salaries, wages, bonuses, commissions, overtime, and benefits.

(Benefits would include: car allowances, transportation, healthcare insurance premium, end of service awards, and other compensation related perks provided to the company employees)

Owner/Management Remuneration and Board Fees

Dividends and large compensations to owners and managers are not treated as part of Saudi Compensation if such amounts are directed only to the owners or other related parties. Board fees would be considered as a "Service" and included in Component (A) if paid to Saudi individuals.

Saudi Expats

If the company employs Saudi Nationals OOK and are not reported in the company's payroll numbers or local financial records, the company can add these headcounts and compensation amounts to Component B. In the annual iktva survey, these additional costs can be added through the Cost Reconciliation Table.

Expats

As mentioned in component A, expats costs are recorded in iktva with 37% allowance. If expats are on temporary visa and are living IK then this is also applicable subject to Saudi Aramco's pre-approval. In the case where expats are on temporary visa but not living IK (e.g. on an offshore rig) then amounts are not counted in iktva.

Government Reimbursement

If the company receives funding to help cover employee compensation and/or training costs from the government through programs such as HRDF and Saned (unemployment), then these reimbursements do not need to be netted with compensation costs. Instead, they should be excluded from the iktva survey.

Component C

Component Captured in this Section

$$iktva = \left(\frac{A+B+\textcolor{blue}{C}+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Training & Development in iktva

Training and development costs, IK or OOK, include a wide variety of activities that are geared toward increasing the knowledge base and skillset of the Saudi workforce. It can include all types of trainings: whether performed in-house or externally, technical or non-technical.

What is Captured in Component C?

All types of trainings fall under component C such as: safety, leadership, soft skills, and technical skills. In addition, sponsorships by various training and educational institutions located IK may also be included in component C. On-the-job training (OTJ) might qualify if properly documented and tied to Saudi employees that are new to their positions. Any assumptions made in this category will be limited to 1.5% of Category E.

Costs incurred with OOK companies for Training & Development of Saudi nationals, may be captured and reported in the company's iktva survey.

Examples of T&D:

- Travel and accommodation
- Training and development courses
- Annual software license fees related to training
- Technical training academies, internships, and co-op sponsorship costs.
- Outside training consultants
- Insurance
- The portion of compensation for expats related to training Saudis
- Donations and contributions to training academies and institutes

Donations-in-Kind

Any donations of in-house created software will be limited to 1% of Component (E). The entity should provide to its Iktva auditors related documentation enabling them to verify i.e.

- The software was created in house (through time-sheets, emails etc.) showing that entity has actually incurred cost for its creation,
- It was actually donated to the entities / universities (e.g. acknowledgment / confirmation)
- Method used to value the software e.g. market-based value estimates justified by strong internal assumptions with proper documentary evidences. E.g. a research study conducted by in-house relevant technical team on the useful life and its value etc.

Any donations of any assets (other than software) previously recognized in the books of the Company will be treated as:

- If asset is fully depreciated as per accounting records, then 5% of its original cost to the company,
- If asset is partially depreciated, then follow the accounting WDV for the purpose of value in Iktva

On-the -job training (OJT):

For OJT, if an entity intends to claim certain C&B of expat staff, then, only senior level expat trainers C&B cost (full / partial) can be claimed subject to properly documented time and supporting documents. Senior level expats to include staff which qualifies for categories of Manager, Professionals, Technicians and associate professionals. For the rest of the categories, it is presumed that such expat staff would not be adding much to the skill set of Saudis.

Further, only Saudi employees that are new to their positions would qualify as trained head counts. It is presumed that a Saudi employee would be sufficiently trained if he is holding the same position for more than 3 years.

Training Sessions

(for Saudis & Non-Saudis)

If a training session includes both Saudi and non-Saudi participants, then a proportional share of the training costs should be allocated among the trainees based on head counts.

Supporting Documentation

The Company should have following documentation in order to claim training and development cost:

- A complete list of trained Saudis and expat trainers which contain the following information:
 - Full name, iqama / national IDs
 - Registered on payroll as staff or intern or trainer
 - Staff designation
- a) External trainings:
 - Invoices from or payment support of the institute,
 - Training completion certificates showing names of Saudi trained,
 - If training certificates are not available, then any attendance log can be used as alternative evidence.
- b) Internal trainings (OTJ):
 - Timesheets:

- Time sheets of Trained Saudi Staff showing training hours,
- Time sheets of in-house expat trainers showing training hours,
- Email communications providing solid evidence of OTJ.

If no time sheet or email communication evidence is provided then the assumption will not be accepted.

- Approved job description by HR of mentioned expat trainers showing such expats is responsible for Saudi trainings.

Component D

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Supplier Development in iktva

Supplier Development is defined by the Chartered Institute of Procurement & Supply (CIPS) as: *“the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organization. It is closely associated with supplier relationship management and partnering - two separate subjects on which CIPS has similar documents.”*

What is captured in component D?

Related Areas	Capabilities Related	Process Related	Operating System Related
Technical Capability	> Design > New product intro. > Feasibility testing > Product improvement	> Process capability > Process design > Automation > Reconfiguration	> CAD/CAM > CIM/FMS > JIT/MRP
Quality Capability	> Specification limits > Incoming materials control	> Process capability > Testing equipment > Workman-ship	> Quality assurance program > Quality circles > S.P.C. program > Worker training
Delivery Capability	> Product mix > Materials lead time	> Capacity level > Process flexibility > Set-up times	> Order entry system > Scheduling flexibility > Transportation/ inventory system
Cost Capability	> Value analysis > R&D expenditure > Cost reduction programs	> Process efficiency > Capital investment > Rationalization of workplace	> Work productivity > Indirect costs control

Examples of supplier development cases:

- > Company A shares its designs and product specifications to company B. In order to increase the technical skills of company B which will support the overall quality of Company A
- > Company A performs safety and competency-based training programs to company B
- > Company A performs a localization awareness/workshop program to its companies
- > Company A provides consultation to company B to increase the company's overall quality
- > Company A supports Company B in logistics and transportation
- > Company A donates equipment to Company B
- > Company A provides financial Aid (donations) to company B to support a project or development

Similar to Training & Development Section, the company may include costs incurred from OOK companies or expat employees (subject to availability of proper audit documentation including approved time sheets for time allocation from group HR, pay-slips, email correspondences exchanged between IK, OOK and suppliers' staff etc.). However, if any costs have already been included in other Sections of the survey, they should be excluded from here. In the case of having items allocated less than 100% iktva contribution in other sections and are being reclassified under company development,

then they will be considered at 100% iktva contribution. Any assumptions made in this category will be limited to 1.5% of Category E.

Supporting Documentation:

The Company should have following documentation in order to claim supplier development cost and credit:

- Full list of staff with their name, fully dedicated / portion allocated (FTE counts), nationalities, GOSI (Non-GOSI) status, IK / OOK status, designation and small brief on his / her job description which the Company wants to cover in supplier development.
- Approved timesheets for relevant staff doing SD activities.
- If any OOK based staff cost is included in SD:
 - o The Company should maintain all documents including pay slips, email confirmations, and approved time sheets confirming that such OOK global employee has worked for supplier development for KSA based suppliers.
- If no approved timesheets, pay slips, or email confirmation are available, then the Company cannot claim allocated C&B of related IK / OOK staff.
- Each employee should keep log of all email communications with the suppliers (to be verified by Iktva auditors on sample basis).
- Each concerned staff should fill a form which is a confirmation from the respective employee acknowledging that he / she understands what is supplier development and also acknowledges activities performed during the year.
- The Company should maintain list of all suppliers developed. All such suppliers should confirm on their letter head or email by their COO / CEO or any operations senior level employee that the Company has provided:
 - o Name of the staff of the Company who were engaged in supplier development
 - o Any benefits obtained through this supplier development activity
 - o No payment was charged by the Company or any amount adjusted against such voluntary training
 - o The supplier development activities were conducted at suppliers' premises or within the Company premises
- A supplier should not be trained for more than 3 years for same training course e.g. it is expected that a supplier should be reasonably trained for VAT compliances in three years.

Component R

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Research & Development in iktva

Research & Development (R&D) costs include the total amount of annual operating expenses related to (R&D) activities conducted IK. Corporate allocations from the company's R&D centers located outside the Kingdom do not qualify unless the end product, process or the patent is eventually in Saudi Arabia.

What is Captured in Component R?

Any capitalized costs on the books of the company (such as depreciation) can only be included in R&D to the extent they are amortized. The types of costs that can be classified as R&D should be consistent with guidance provided by International Financial Reporting Standards (IFRS) or Saudi Arabian Generally Accepted Accounting Principles (Saudi GAAP). International Accounting Standard 38 Intangible Assets offers the following definitions:

- Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding
- Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Examples of research & development:

- Activities to obtain new knowledge on self-driving technology
- Search activities for alternatives for replacing metal components used in a company's current manufacturing process
- Search activities for a new operating system to be used in a smart phone to replace an existing operating system
- Design and construction activities related to the development of a prototype
- Design and construction of a new tool required for the manufacturing of a new product
-

The entity should have sufficient and appropriate audit documentation including data showing staff nationalities, staff designation, brief on how such staff contributes in R&D, approved justification from HR for %age time allocation with approved time sheets, analysis showing R&D activities conducted during the year and its impact on entity's products / services / operations etc.

Supporting Documentation:

The Company should have following documentation in order to claim R&D cost and eligible for any related credit:

- Maintain a list of staff showing their name, fully dedicated / portion allocated (FTE counts), nationalities, GOSI (Non-GOSI) status, designation and small brief on his / her job description which the Company wants to cover in R&D.
- Approved timesheets for relevant staff doing R&D activities.
- If any OOK staff cost is included in local R&D activities:
 - o The Company should maintain all documents including pay slips, email confirmations, approved time sheets by local company's HR confirming that such OOK global employee has worked for R&D.
 - o The staff should be physically present in Saudi Arabia.
- If no approved timesheets, pay slips, or email confirmations are available, then the Company cannot claim allocated C&B of related IK / OOK staff
- Each concerned staff should fill a form which is a confirmation from the respective employee acknowledging that he / she understands what is R&D and also acknowledges activities performed during the year.
- If there is no disclosure in audited financial statements (FS) for R&D cost and the Company intends to claim R&D cost based on internal allocations from payroll / goods and services, then, it should:
 - o Disclose the reason in AUP why its management has not disclosed R&D in audited FS if it existed there
 - o Disclose in Iktva Survey, list of major R&D activities performed e.g. any patents obtained, heavy duty machinery purchased etc.

Bonus Factor on Components (D) & (R)

Components D & R are eligible for a bonus factor.

This bonus is calculated based on a multiplier factor (5X) which can be applied to the company's spend in these categories. The total bonus percentage allowed for each Section is capped at 5% points. The final calculated bonus for each section will be added to your company's iktva score.

Component E

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Total costs in iktva

Component E captures all costs the company has incurred during that year. Costs are also added from OOK operations done by affiliates i.e. OOK revenue earned through IK customers by group global operations.

Accounting adjustments like provisions for doubtful debts, inventories, any impairment allowances are excluded as these are IFRS based accounting entries and do not reflect any economic value addition within the Kingdom. Similarly, for consolidated iktva surveys, transactions conducted by related parties in iktva consolidation should also be removed as these reflect internal costs to each other and the suppliers list should not also contain these entities as suppliers.

Below is the general calculation used to capture component E:

$$E = \text{Costs Recognized in iktva} + \text{Costs Unrecognized in iktva} + \text{OOK Costs}$$

What is captured in Component E?

Deductions:

Deductions from the audited costs can only occur if the company has OOK branches/operations that are included in the local entities audited financial statements. The OOK costs, along with the OOK revenues associated with these operations, can be excluded from the company's iktva survey.

Additions

Costs that are not incurred directly by the local company, however contribute to the local economy can be added to iktva.

Examples:

- If the parent company or affiliates hire Saudis working in OOK operations and their compensation costs are not captured in the local company's audited financial statements, their compensation costs and headcounts can be included in the iktva survey. Since they qualify for iktva, these costs and headcounts would be reported in Labor Section.
- If the company has OOK related entities or affiliates that source local goods and services to service OOK customers, these costs can also be added to the local company's costs and reported in IK suppliers Section. The entity should obtain a written confirmation from such global OOK entities whose purchases from IK suppliers represent more than 50% of total such purchases. The confirmation should contain name of IK suppliers from such purchases are made, period of purchase and amount in \$.

These costs must undergo the same iktva audit scrutiny as the company's own costs. As a result, proper supporting documentation needs to be provided to the auditors in order to be includable in your iktva survey.

Component I

Component Captured in this Section

$$iktva = \left(\frac{A+B+C+D+R}{E} \right) + I$$

Component A	Includes the full details about Goods & Services, Amortization & Depreciation of Invested CAPEX, Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development
Component D	Supplier Development
Component R	Local Research & Development
Component E	Total Cost
Component I	Includes incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

Component I in iktva

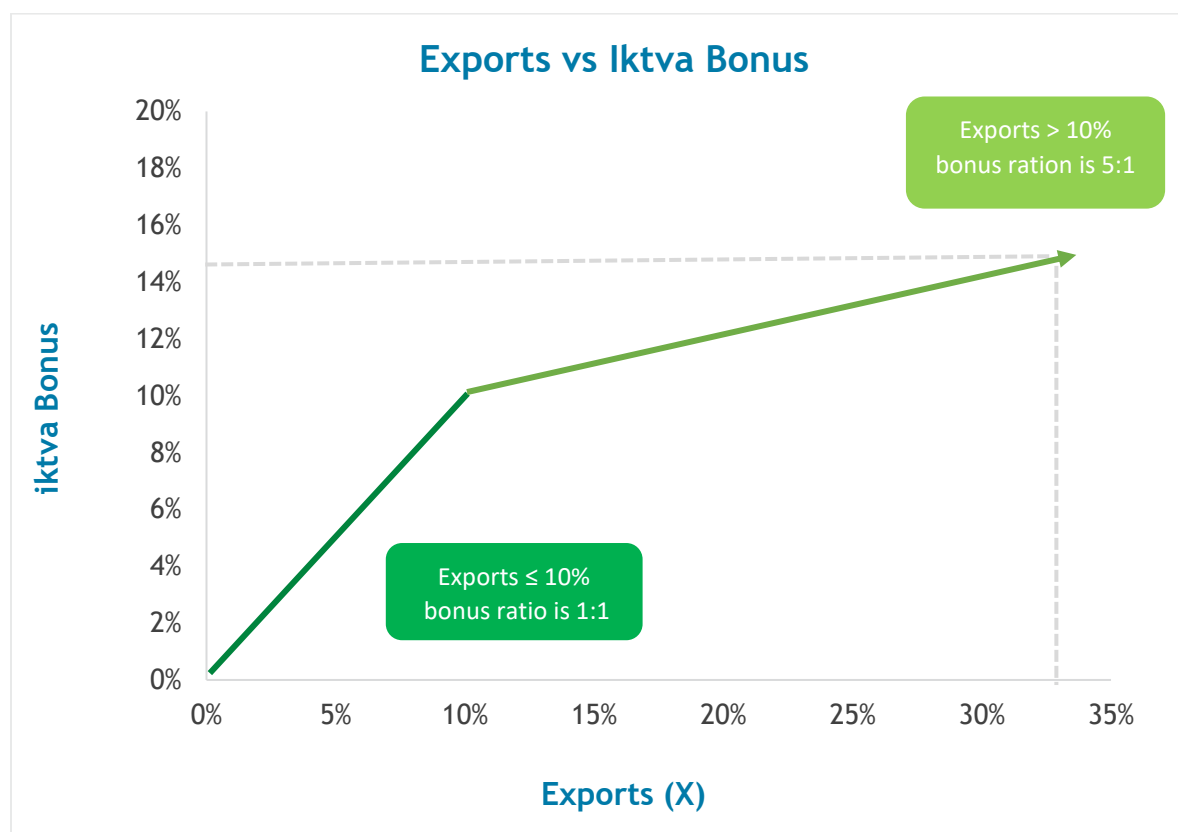
Exports Incentive Factor (X)

In previous years, the exports bonus was capped at 10%. Upon removing the cap this year, companies will now be able to achieve an additional bonus for their exports above 10%. As a result, for every additional 5% (above the initial 10%), companies will be awarded an extra 1% bonus on their iktva, representing a 5:1 ratio of exports: bonus. This is defined in the formula below:

$$\text{if } \begin{cases} X \leq 10\%, & \text{bonus} = X \\ X > 10\%, & \text{bonus} = 10 + \left(\frac{x - 10}{5}\right) \end{cases}$$

Example:

- > If company A has X=33% then iktva bonus would be 14.6% shown in the chart below



Environment, Social & Governance (ESG)

ESG is captured in iktva upon submitting an ESG rating from an approved 3rd party ESG evaluation company. In the annual iktva survey, companies must submit their ESG rating along with the results of the ESG evaluation in the iktva portal to be qualified for the 1% incentive factor.

For information and guidance on the ESG evaluation process, please contact the 3rd party ESG evaluation companies directly through the contact information available on their websites. The approved 3rd Party ESG evaluation companies can be found on the iktva website:

<https://www.iktva.sa>

Cybersecurity (CS)

iktva rewards companies who meet the requirements of Saudi Aramco's cybersecurity standards. In order to be qualified for the cybersecurity incentive of 1%, companies must obtain a CCC certificate.

More details available in the following link:

<https://www.aramco.com/en/workingwithus/suppliers/resources/cybersecurity-compliance-certificate-program>

Regional Headquarters Program (RHQ)

In the annual iktva survey, multinational companies who acquire the RHQ license from the Ministry of Investment obtain a 1% incentive factor. RHQ license can be acquired through the following link:

<https://www.investsaudi.sa/en/sectors-opportunities/regionalHQ>

For more information regarding the RHQ license, contact MISA directly through the contact information available on their website.

Local companies who originated in the Kingdom of Saudi Arabia will receive the 1% bonus factor upon providing proof of documentation indicating HQ is in kingdom, such as a commercial registration to iktva Auditors.