Calculation Guide

In-Kingdom Total Value Add (iktva)

iktva Certification | 2023

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

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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local Supplier Development
Component R	Local Research & Development
Component E	Total Costs
Component I	Includes Incentives: Exports, Environment Social Governance, Cybersecurity, Regional Headquarter Program

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 unless the cost incurred qualify for iktva as illustrated in these guidelines.
- 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 a consolidated iktva survey. Related entities that are outside the scope of the iktva survey are considered as other companies.

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:

- Submissions shall be inclusive of all IK & OOK operations that do business with Saudi Aramco and KSA.
- In most instances, companies are required to submit a consolidated iktva surveys covering all related entities. However, in some cases, submitting multiple surveys would be better to obtain a better picture of the iktva ratio for their various and diverse operations.
- Aramco joint ventures should file a standalone survey apart from other related entities and should not be consolidated within any subsidiaries' surveys.
- 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 of the related companies' iktva results. As an example, if the company owns 35% of a JV, then it can incorporate only 35% of revenue, costs, and headcount. If the ownership is less than 20%, then the related entity can be excluded at the company's option.
- Amounts reported in Sections 1 through 9 should not be double counted. For example, if an In-Kingdom training service provider's costs are shown in Section 3: In-Kingdom Goods, Services, & Depreciation/Amortization, these costs cannot be

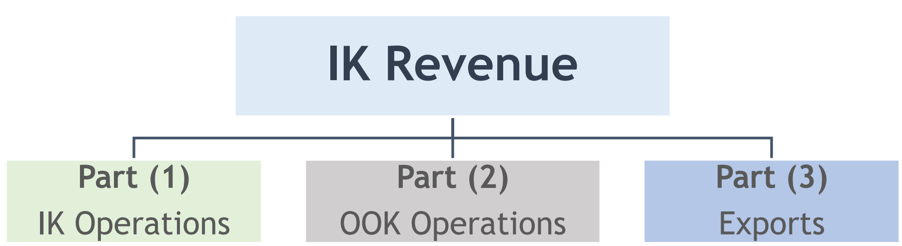
counted again in Section 7: Training & Development of Saudis. The company may only assign costs to a single category.

- The assumptions and calculation methodologies utilized in preparing the survey should be consistent from year to year and within the guidelines provided by Saudi Aramco or provided on www.iktva.sa.
- 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 have minimal In-Kingdom (IK) content (less than 5%) should self-certify. For further details on self-certification or other iktva related inquiries, 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 generated by Saudi Aramco. This allows Saudi Aramco to identify the portion 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 IK-based customers, served by IK operations. 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 only.

Part (2): IK Revenue Derived from OOK Operations

This category captures the revenue from IK-based customers-, served by OOK operations. This applies to OOK revenue generated from sales to Saudi Aramco or other IK customers as well as local agents that resell the company's imported finished products. This type of revenue is not generally reported in audited financial statements of the local entity, however, giving the fact that this revenue belongs to the OOK entity and 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. In-case of services, the related technical team of the 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 the OOK customer's location. Eventually, the OOK customer pays the IK entity for such services.

Direct & Indirect Revenue to Saudi Aramco

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.

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 revenue. Information relating to Saudi Aramco's subsidiaries can be found in latest audited financial statements of Saudi Aramco.

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 Revenue:

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

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

Estimation of Company Costs

As some iktva costs cannot be traced directly through companies' financials, iktva allows to use assumptions to calculate the costs for categories C, D, and R. Estimated costs must be reasonable and provided to the iktva auditor for verification. If the cost is based on assumptions, it will be capped at 1.5% of the Category E: Total Costs (IK and OOK cost) for each category of training and development, supplier development, and research and development. Supporting documentation must be provided to justify and validate those assumptions. 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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local 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

Goods and Services are not meant to be limited to costs used to derive gross margins. In addition to expenditures that would normally be included in cost of goods sold, cost of sales, and cost of services, the Goods and Services category is intended to capture purchases from all IK companies regardless of how they are classified on a traditional income statement. As a result, general and administrative, selling, marketing, and financing charges can be included in Goods and Services if procured from a local supplier.

Process of Capturing IK G&S

Top 70% of IK G&S Purchased

Each supplier listed as part of the top 70% of IK G&S purchased may have an iktva ratio equal to the highest of either: The Business Segment Estimate (BSE) or the IK supplier's 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 will be categorized as an importer and the BSE will be equal to 0%. However, if the supplier is a trader of locally manufactured products, it will be assigned the BSE ratio of the manufacturer minus 10%. Suppliers who import materials and apply some forms of IK value adding activities such as assembly will obtain the BSE of the manufacture.

Example:

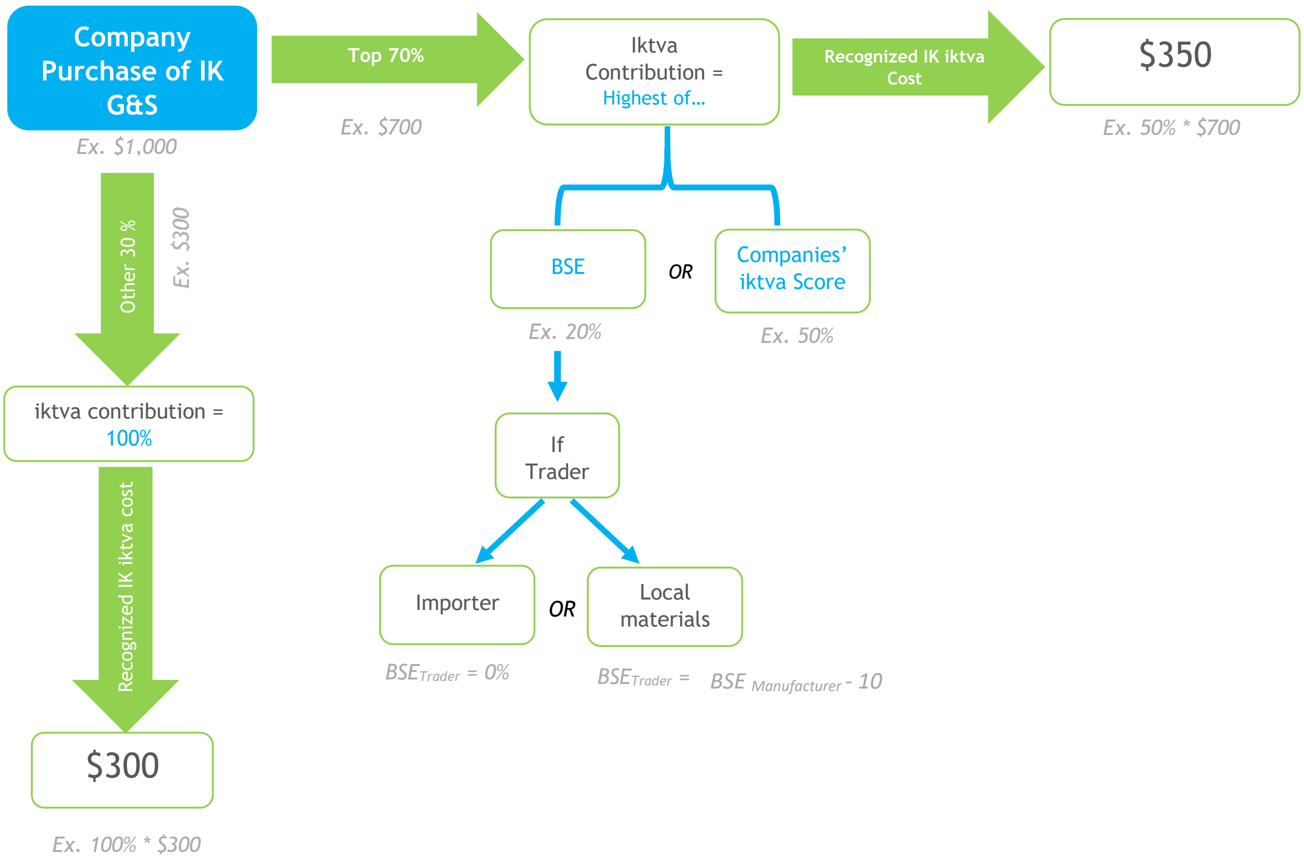
- Assuming that the total value of IK G&S purchased is $1000, and one supplier represents 70% of the total IK purchases ($700). If the supplier's actual iktva score is 50% (for the appropriate year or the year before), and the BSE is 20%. In this case, the actual iktva score will be considered as it is higher than the BSE ratio. The recognized iktva cost will be 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 will be considered. The recognized iktva cost will be then equal to 0.2 * $700 = $140

- If the supplier is a trader, the BSE = 0% and the recognized iktva cost will be $0. If the supplier is a trader of local materials, and the BSE of the local manufacture for such material = 20%, then the iktva ratio will be 20% - 10% = 10%. The recognized iktva cost will be then equal to 0.1 * $700 = $70

Other 30% of IK Goods and Services Purchased

Upon listing 70% of the company's 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- Goods and Services)?

- Spend with OOK companies
- Contract penalties
- Government penalties
- Intercompany costs if consolidated
- Costs reported in other sections
- Non-cash transactions (e.g. provisions, FX gains and losses)
- Dividend payments
- Refundable VAT
- Capital expenditure

Significant Changes in Inventory and Accruals Under Component (A-Goods and Services):

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. As some companies may not be able to report goods from IK suppliers based on consumption data, purchase data may be used. However, an adjustment must be made to convert purchasing data to consumption data. Hence, the significant changes in inventory and G&S related accruals 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.*

Ideally those adjustments should be identified with a specific supplier. If the company is unbale to associate those adjustments with specific suppliers, the adjusted amount will be reported under significant changes in inventory line. Only change in inventory related to IK purchases should be included. The iktva ratio used for the changes in inventory is the weighted average iktva ratio of the top suppliers listed in the IK suppliers table.

Saudi Government Payments

Those payments assigned an iktva ratio of 100%. They include nonrefundable 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. Employer portion of GOSI) should be excluded and instead reported as part of compensation costs in in the Labor section.

Financing Costs

Those payments assigned an iktva ratio of 70%. They include any interest and finance changes 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 an operating or capital expense for the company.

Petty Cash

Petty cash expenses, if represent 70% of local purchases, should be grouped in one line and listed as part of the Top IK suppliers table. The iktva ratio assigned will be the weighted average iktva score of the samples selected by the auditors.

Capital Expenditure

The iktva survey includes capital expenditures (Additions in Property, Plant and Equipment (PPE), Intangibles, Right of Use (ROU) Assets, Transfers from Related Party (Net Book Value (NBV)), and Transfers from Capital Work InProgress (CWIP)) the company has made for its IK operations. Consistent with standard accounting practices, major refurbishments and repairs, if capitalized for financial reporting purposes, should also be included in Capital Expenditure Section. However, construction in progress or assets that have not yet been placed in service should be excluded. In the annual iktva survey, disposals (Disposals in PPE, Intangibles, ROU, Transfers to Related Party, and Write-off of assets) should only be deducted if included in previous years' iktva capital expenditures.

The percentage of capex costs allowed for iktva is determined based on the source of the asset. Any assets manufactured IK will receive a 100% allowance. Assets imported or procured from OOK suppliers will be assigned 20%.

Estimated useful lives and depreciation methodology are calculated as follows: the allowable costs of all 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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local 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, end of service awards, and other compensation related perks provided to the company's 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 their compensation costs qualify for iktva. However, expats are on temporary visa but not living IK (e.g. on an offshore rig), then amounts are not allowed 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

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

Component A	Includes full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local 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 technical or non-technical and performed in-house or externally.

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 costs:

- 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
- The portion of compensation for expats related to training Saudis
- Donations and contributions to training academies and institutes

Software Donations

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 such as:

- 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.

On-the-Job Training (OJT):

For OJT, if an entity intends to claim certain Compensation & Benefit (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 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:

- A complete list of trained Saudis and expat trainers which contain the following information:
    - Full name, iqama / national IDs
    - Registered on payroll as staff, 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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	**Local 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

Activities that are contractually required, generate revenue, or costs that are charged directly or indirectly to the supplier do not qualify.

Examples of supplier development cases:

- Company A shares its designs and product specifications to Company B in order to increase the technical capabilities of Company B which will support the overall quality of Company A's products
- 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. 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:
    - 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:
    - Name of the staff of the company who were engaged in supplier development
    - Any benefits obtained through this supplier development activity
    - No payment was charged by the company or any amount adjusted against such voluntary training
    - 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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
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. R&D costs can include expat compensation as well as IK and OOK goods and services.

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 percentage 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:
  - 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.
  - 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.
- 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:
  - Disclose the reason in AUP why its management has not disclosed R&D in audited FS if it existed there
  - 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 full details about local Goods & Services, Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local 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 from OOK operations done by affiliates are also included i.e. OOK revenue earned through IK customers by group global operations.

Below is the general calculation used to capture component E:

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

Deductions:

Deductions from the audited total costs may occur in the following scenarios:

- If the company has OOK branches/operations that are included in the local entities audited financial statements, unqualified costs for iktva associated with those OOK operations, along with the OOK revenues generated from OOK customers, should be excluded from the company's iktva survey.
- Accounting adjustments like provisions for doubtful debts, inventories, any impairment allowances, if the impact on iktva is more than 2%, should be excluded as these are IFRS based accounting entries and do not reflect any economic value addition within the Kingdom.
- For consolidated iktva surveys when using standalone audited financial statements, 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.
- Share of loss from investment in associates/subsidiaries should be also deducted from the audited cost.

Additions

Costs that are not incurred directly by the local company, however they 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 IK purchases. The confirmation should contain name of IK suppliers for purchases, 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 full details about local Goods & Services, Amortization & Depreciation of Invested CAPEX and Right of Use assets, and Expat Compensation
Component B	Saudi Workforce Compensation
Component C	Training & Development of Saudis
Component D	Local 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

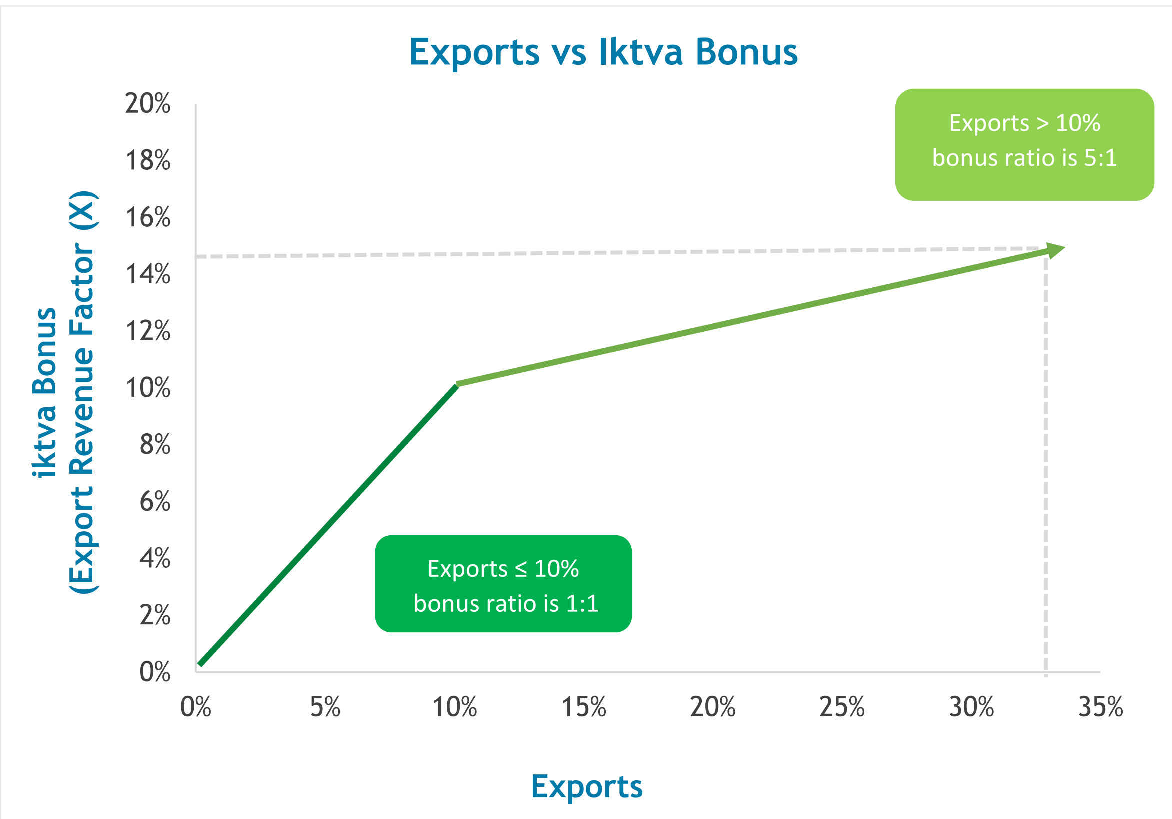
Exports Incentive Factor (X)

Historically, the exports bonus was capped at 10%. Upon removing the cap last year, companies will now be able to achieve an additional bonus beyond 10% for their exporting activities. 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:

$$if \begin{cases} Export\ \%\ of\ Total\ Revenue \leq 10\%, & X = 10 \\ Export\ \%\ of\ Total\ Revenue\ > 10\%, & X = \left[10\ + \left(\frac{(Export\% * 100) - 10}{5}\right)\right] \end{cases}$$

Example:

- If Company A has exports=33% of its total revenue, then iktva bonus (Export Revenue Factor (X)) 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.