

In-Kingdom Total Value Add Program

2017 IKTVA Survey Guide

أرامكو السعودية
Saudi Aramco



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Introduction

Saudi Aramco is in its third year of implementing its strategic initiative entitled In-Kingdom Total Value Add (“IKTVA”). The IKTVA program requires our suppliers to report qualitative and quantitative information that falls into eight major categories:

1. Revenue;
2. Goods, Services, and Depreciation/Amortization;
3. Saudi Payroll Related Costs;
4. Saudi Training and Development;
5. Saudi Supplier Development;
6. Research and Development;
7. Investments; and
8. Other.

From this data, Saudi Aramco calculates an IKTVA ratio that approximates the percent of Saudi Aramco’s spend that remains in Kingdom or develops the Kingdom’s supply chain and capabilities. The IKTVA ratio formula is illustrated below:

The objective is to drive key activities towards localization and job creation, which will be assessed against the following metrics:

- A. Localized goods and services (\$)
- B. Salaries paid to Saudis (\$)
- C. Training & Development of Saudis (\$)
- D. Supplier Development Spend (\$)
- r. Local Research and Development (\$)
- X. Export Revenue Factor (%)



Supplier IKTVA Formula

$$\% \text{ IKTVA} = \left[\frac{A+B+C+D+r}{E} \right] + X$$

$$X = \left[\frac{\text{Export Revenue as a \% of Total Revenue}}{30\% \text{ Export Target}} \right] * 10\% \text{ points (max of 10\%)}$$

In most cases, Saudi Aramco requires third party verification of the company's IKTVA survey. See the IKTVA website (www.iktva.sa/auditfirms/) for a list of auditors that have been trained and approved to perform these services. However, if the company only has operations outside of the Kingdom and/or the amount of In-Kingdom content is minimal (less than 5%), then it may self-certify. In addition, suppliers that are just starting their operations and have costs exceeding revenues can also self-certify. Please contact Saudi Aramco's IKTVA Support Group for further guidance or other IKTVA related inquiries at iktvasurveyinfo@aramco.com.

We require that our suppliers submit the survey on an annual basis. For those companies submitting their IKTVA results for the first time, the certified IKTVA survey is due within seven months after the company's fiscal year end. All others will be due within five months after the company's fiscal year end.

Throughout this guide, the Page Number headings correspond to the separate tabs which have been incorporated into the Excel survey tool that is used to complete the survey.

New for IKTVA 2017

Companies filing certified IKTVA surveys last year will not notice many differences between last year's version and the 2017 IKTVA survey. Some additional guidance has been given regarding types of expenses that are included and excluded so you will want to read this survey guide carefully. In addition, the following enhancements have been made:

1. Export Revenue Factor – The IKTVA Ratio formula has been revised to include a factor to encourage exports (Component X). Companies can have up to 10 percentage points added to their IKTVA ratio by increasing their export revenue as a percentage of total revenue to 30% or above. Partial credit is also given, on a linear basis, to those companies that export less than 30%. For example, if a company's 2017 export revenue was 12% of total revenue, then it would have 4 percentage points added to its IKTVA ratio $[(12\% / 30\%) \times 10 \text{ points}]$. This approach rewards companies that support one of the primary goals of IKTVA, which is to drive exports to be 30% by 2021. Please note that this enhancement will only impact the company's 2017 IKTVA score and future scores.
2. Sector Level IKTVA Surveys – A small number of our suppliers have very diverse operations and derive revenue from more than one major segment category. When evaluating their historical IKTVA performance, it is difficult to fairly place them in the appropriate sector and to evaluate their progress because many times their IKTVA scores can vary greatly as their mix of business changes. As a result, we are going to request that some of these companies file multiple IKTVA surveys for 2017. We will let you know if your company has been selected and will work directly with you to determine the best approach to accomplish the objective.
3. Saudi Jobs – A new section has been added to the survey which provides summary information about the types of jobs staffed by and created for Saudi employees. Job types have been segmented into 10 different categories using the International Standard Classification of Occupations published by the International Labour Organization.
4. Supplier Table IKTVA Guidance – As more and more surveys have been submitted, we have been able to refine the IKTVA ratio guidance provided in the past. This guidance has been incorporated in the survey tool in Section 8. Top In-Kingdom Supplier Table located on Page 3 In-Kingdom Suppliers. Since many companies don't have or will not disclose certified IKTVA scores, Saudi Aramco publishes an estimated IKTVA ratio that is based upon IKTVA scores

from certain sectors and categories of suppliers. You can find this guidance on our website at <https://www.iktva.sa/iktva-package/>

5. Top Out-of-Kingdom Supplier Table – Last year's IKTVA survey included a section which required suppliers to list their top out-of-Kingdom suppliers. This section has been eliminated.

General Instructions

The following general guidelines should be followed when completing the survey:

1. All financial amounts should be reported in United States Dollars (USD).
2. Amounts reported should correspond to the company's fiscal year end and audited financial statements. Many of the IKTVA numbers are a subset of the company's audited financial results.
3. Revenues and costs reported in the IKTVA survey should be consistent with the revenues and costs the company would report utilizing International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) in Saudi Arabia. For example, if the company does not recognize an item as revenue or an expense in its income statement, then it cannot be claimed in the IKTVA report.
4. Amounts reported in Sections 1.0 through 6.0 should not be double counted. For example, if an In-Kingdom training service provider's costs are shown in Section 2.0 In-Kingdom Goods, Services, & Depreciation/Amortization, these costs cannot be counted again in Section 4.0 Training & Development of Saudis. The company may only assign costs to a single category.
5. In most instances, companies are required to submit an IKTVA survey covering all of its in-Kingdom (IK) operations and revenue. The company's submission should include all related entities that do business with Saudi Aramco and/or other Kingdom of Saudi Arabia (KSA) customers. In the past, Saudi Aramco has required at a minimum a single consolidated IKTVA survey per company. However, many companies have elected to submit multiple surveys to obtain a better picture of the IKTVA ratio for its various and diverse operations. This has been very helpful as they bid on new work. As a result, Saudi Aramco may ask you to file separate IKTVA surveys if your company operates in multiple segments. Companies can contact Saudi Aramco at iktvasurveyinfo@aramco.com if they have additional questions.

K E Y T O P I C S
Incorporating subsidiaries and affiliates
Supporting documentation required
Using consistent assumptions and methodologies

6. For companies with partially owned Joint Ventures (JVs), affiliates and subsidiaries that file a consolidated return, they will only recognize their ownership share of the related companies' results. For example, if the company owns 40% of a joint venture, then it can incorporate 40% of the In-Kingdom revenues, costs, headcounts, and investments into its IKTVA results. If the ownership is less than 20%, then the related entity can be excluded at the company's option.
7. The company will need to eliminate any intercompany transactions between related entities that are included in the survey when completing a consolidated IKTVA survey.
8. Assumptions and calculation methodologies utilized in preparing the survey should be consistent from year to year and with the guidelines provided by Saudi Aramco or provided on www.iktva.sa. For example, if the company uses the Revenue Ratio (see *Allocation of Costs to Saudi Aramco* on page 15 of this guide) for its first IKTVA survey (its Baseline Survey), then it should use the Revenue Ratio in all subsequent years. Any changes to the methodology must be discussed with your auditor and Saudi Aramco so that prior year numbers can be restated for comparability purposes.
9. There are two columns for data for each year in the IKTVA survey: one column is for Saudi Aramco only and the other is for all in-Kingdom customers, including Saudi Aramco, and exports.
10. All numbers reported in the IKTVA surveys need to be supported by appropriate and auditable documentation as they will undergo the same scrutiny as audited year-end financial statements.
11. Survey fields/cells with **BLACK** numbers contain formulas and calculations derived from the input fields and should not be changed. Most are password protected. Fields/cells that contain numbers in **GREEN** are for data input. For convenience, some input fields/cells in **GREEN** contain formulas, but can be overwritten by companies that choose not to use the default Revenue Ratio methodology described on page 15 to assign costs and headcounts to Saudi Aramco.
12. **IMPORTANT:** The Excel survey tool has been password protected to maintain the integrity of the formulas used to calculate and analyze your company's IKTVA data. All data input cells necessary to complete the survey are unlocked. This password protection feature should not be tampered with. Any Excel files submitted without the password protection in place will not be accepted and the company will need to refile its survey using the approved Excel file.

13. Companies should take care to ensure they select the appropriate survey tool: first time filers of a certified IKTVA report should use the “First Time Filer IKTVA Worksheet” and others should use the regular survey tool. Both are located on the IKTVA website (<https://www.iktva.sa/iktva-package/>).

Page 1: Company Information

Page 1 outlines general company information including the types of products and services offered, IKTVA initiatives undertaken, and operating locations. Companies are to complete the following:

1. Provide the company's name, address, and the main point of contact for completing and answering questions regarding the IKTVA survey. Also provide the company's fiscal year end, commercial registration number(s), and Saudi Aramco vendor identification number(s), if applicable.
2. Give a brief description of the goods and services provided by the company. This summary should be limited to just a sentence or two.
3. Provide highlights of the company's progress and support of the IKTVA program during the last year.
4. List the city and country of all company operations which support Saudi Aramco or other KSA customers.
5. Provide a list of any companies, including percentage ownership and vendor identification number if applicable, of the company's related entities (wholly or partially owned subsidiaries, affiliates, JVs) whose results are incorporated into the survey.

Page 2: IKTVA Schedule

As mentioned earlier, the survey which your company utilizes will be slightly different depending on whether you are submitting a certified IKTVA survey for the first time or have previously submitted a survey.

The main difference between the two versions of the survey is the source for the historical information. If the company submitted a certified IKTVA survey in the prior year, then you will use the regular survey tool. Only the current year data will need to undergo the full testing by the company's auditor. To complete the information required for the historical periods (2013 to 2016), you will use the company's final survey summary provided by Saudi Aramco to populate the amounts. To obtain a copy of the final survey summary, send an email request to iktvasurveyinfo@aramco.com.

K E Y T O P I C S

Including revenues for IK and OOK operations

Costs which are excluded

Types of costs to include as compensation

Examples of supplier development activities

Those submitting a certified IKTVA survey for first time will use the first time filer survey tool. This survey requires companies to provide three years of detailed data that is reviewed by its appointed IKTVA auditor.

Regardless of which survey tool the company utilizes, the instructions provided below will apply.

Section 1.0 In-Kingdom Based Revenue

The revenue section captures revenue generated from goods and services provided to Saudi Aramco, other KSA customers and exports from In-Kingdom operations. The amounts reported should include the total revenue, whether derived from the company's In-Kingdom (IK) or out-of-Kingdom (OOK) operations.

Revenue is broken down into three separate lines on the survey:

1. IK revenue derived from IK operations.
2. IK revenue derived from OOK operations.
3. OOK revenue generated through IK operations (export revenue).

Please note that the Saudi Aramco revenue amounts should include revenue received directly and indirectly from Saudi Aramco. For example, if the company is an Engineering, Procurement and Construction (EPC) firm and 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 philosophy applies if the company sells goods and/or services through a broker or agent to one of our overseas affiliates (such as Aramco Overseas Company and Aramco Services Company). 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.

However, revenue derived from partially owned subsidiaries, affiliates and JVs of Saudi Aramco should not be included. As a general rule, revenue generated from JVs or partially owned companies such as SADARA, PetroRabigh, YASREF, SAMREF and others should be captured in Total KSA revenue, but not included in Saudi Aramco revenue.

In order to qualify as export revenue, the end user of the goods or services must be located outside the Kingdom of Saudi Arabia. In addition, the economic activity for the transaction(s) involves the transfer of goods or the rendering of services for these end users. Bill-to address is not important. What is important is the ship-to/end consumer location.

Your company's total annual revenue from Saudi Aramco should closely match Saudi Aramco's records. When your IKTVA survey is audited, the company's approved auditor will compare the amounts to ensure accuracy. Confirmation of total annual revenue from Saudi Aramco can be obtained by sending annual revenue amounts to iktvasurveyinfo@aramco.com with Revenue Confirmation in the subject line.

Section 2.0 In-Kingdom Goods, Services & Depreciation/Amortization

The Goods, Services and Depreciation/Amortization section provides the company's IK supply chain purchases. The amounts for goods and services in the Saudi Aramco and Total KSA columns come directly from Section 8.0 Top In-Kingdom Suppliers. Total KSA Depreciation and Amortization amount(s) come from Section 11.0 Asset Depreciation & Amortization.

The Saudi Aramco and IK Portion columns totals from Section 8.0 should equal the amounts reported as Goods and Services in Section 2.0 for Saudi Aramco and Total KSA. The Depreciation and Amortization for Total KSA in this section includes part of the cost of fixed or other tangible and intangible long terms assets procured IK as summarized in Section 11.0. The portion of Goods and Services and Depreciation and Amortization assigned to Saudi Aramco can either be based on the Revenue Ratio or Direct Costing as described below (see *Allocation of Costs to Saudi Aramco* on page 15).

Goods and Services

For IKTVA purposes, 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, or Cost of Services, the Goods and Services category is intended to capture purchases from all IK suppliers regardless of how it is classified on a traditional income statement. As a result, some general and administrative, selling, marketing, and financing charges can be included in Goods and Services if procured from a local supplier. These types of expenses must be supported by auditable documentation.

However, some types of costs, even though IK based, are purposefully excluded from IKTVA. In order to respect the confidentiality of and sensitivity to the company's total earnings and expenditures that might give an indication of profitability like income tax, zakat, and dividends have been excluded. In addition, most fees paid to a government agency are excluded, unless specifically related to compensation for Saudi Nationals such as end of service awards. Capital expenditures are also excluded. Depreciation and amortization are captured on a separate line item within the Goods and Services category.

Table A provides some specific examples of types of expenses that are to be included (if procured from IK suppliers) and excluded. See frequently asked questions (FAQs) on www.iktva.sa for additional guidance.

Table A

Types of Goods and Services Procured from IK Suppliers and Services Providers

Included	Excluded
<ul style="list-style-type: none"> • Materials and supplies • Transportation/shipping • Professional services • Catering • Equipment rental • Temporary manpower • Benefits provided to expats (e.g. insurance, education assistance, housing, car allowance, etc.) • Utilities • Contractors/consultants • Insurance • Financing (interest and financing costs, not including payments of principal) • Travel & accommodations • Security services 	<ul style="list-style-type: none"> • Income taxes, value added taxes, Zakat, and related penalties • Withholding taxes • Contract related penalties • VISA and iqama fees • Other government fees • Intercompany costs for consolidated entities • Costs associated with payroll and benefits for Saudis (these costs are included under Section 3.0 Saudi Compensation) • Costs associated with training of Saudis (these costs are included under Section 4.0 Training & Development of Saudis) • Costs associated with supplier development (these costs are included under Section 5.0 Supplier and Customer Development) • Costs associated with research & development (these costs are included under Section 6.0 In-Kingdom Research & Development) • Capital expenditures

Expat Benefits

Some benefits that are included in expat compensation packages can be included in Goods and Services. Benefits consumed IK, such as housing, car allowances, educational assistance, and medical services are all examples of benefits that can be incorporated into Section 2.0. Benefits mainly consumed OOK such as repatriation travel do not qualify. IK benefits can be included when paid directly to the service provider or offered as an allowance to the expat workforce.

Depreciation and Amortization

The depreciation and amortization amounts for IK capital expenditures are derived from Section 11.0 Asset Depreciation & Amortization. See Section 11.0 on page 28 of this guide for more details.

Allocation of Costs to Saudi Aramco

After the company calculates the portion of IK based purchases and other costs for the Total KSA revenue, it must allocate a portion of these costs to Saudi Aramco. There are two approved methodologies to calculate the Saudi Aramco portion:

1. **Revenue Ratio:** Divide Saudi Aramco revenue by KSA revenue and multiply by costs/headcounts. This is called the Revenue Ratio methodology. The resulting calculation is illustrated below:

$$\frac{\text{Saudi Aramco Revenue from IK Operations}}{\text{Total KSA Revenue from IK Operations} + \text{Exports}} \times \text{Total Goods and Services}$$

	Description ¹	31-Dec-17	
		Saudi Aramco	Total KSA
1.0 In-Kingdom (IK) Based Revenue			
IK Based Customers Served by IK Operations	Sales to all IK customers (KSA includes sales to Saudi Aramco) from operations based IK.	\$50,000,000	\$70,000,000
IK Based Customers Served by out-of-Kingdom (OOK) Operations	Sales to all IK customers from operations based OOK.	\$7,000,000	\$8,000,000
Export Sales	Sales from IK operations to OOK customers.		\$5,000,000
Total Revenue		\$57,000,000	\$83,000,000
2.0 In-Kingdom Goods, Services & Depreciation/Amortization			
Goods & Services	Portion of goods and services purchased from in-Kingdom suppliers related to the revenue generated from in-Kingdom based sales (see above). Total KSA number is derived directly from the Supplier Table tab (Section 8).	\$14,000,000	\$21,000,000

In the example provided above, the calculation would be as follows:

$$[\$50,000,000 / (\$70,000,000 + \$5,000,000)] * \$21,000,000 = \$14,000,000$$

This same ratio (66.6%) can be used to allocate costs and headcounts to Saudi Aramco in the other sections of the IKTVA survey.

2. Direct Costing: If the company has a project accounting system or its accounting books and records are kept in sufficient detail that it can directly track goods and services provided to Saudi Aramco, then the company may utilize its own internal methodology.

The IKTVA survey is set up to default to the Revenue Ratio methodology. Both Page 2 IKTVA Schedule (see Depreciation & Amortization, Saudi headcount and compensation, Training and Development Costs, Supplier and Customer Development, and Research and Development line items under the “Saudi Aramco” columns) and Page 3 In-Kingdom Suppliers (see column headings “Saudi Aramco Portion %” and “Saudi Aramco Portion \$”) are set up to allocate costs based on the default Revenue Ratio. Note, however, that these numbers are GREEN in color and as a result, may be overridden by manual input.

If the company chooses the Direct Costing methodology, then it will need to describe its approach in the remarks column, manually input the correct amounts, and provide appropriate supporting documentation to the auditor.

Section 3.0 Saudi Compensation

This section is for both headcount and compensation information related to the company’s Saudi employees.

Headcount

For the most part, the headcount data comes directly from the company’s fiscal year-end GOSI reports. The company should report total Saudi headcount, including Saudi employees living and working OOK, and total company headcount. These numbers are reported under the Total KSA column and derived from Section 9.0 Saudi Jobs. First time filers will need to input the headcount numbers for 2015 on Page 2 IKTVA Schedule while 2016 and 2017 headcount numbers will be generated from those reported in Section 9.0 Saudi Jobs.

The headcount numbers and trends are reported as part of the company's IKTVA Summary Report that is provided to Saudi Aramco Management. The report also includes a simplified Saudization rate which is calculated by dividing the total number of Saudi employees by the total company headcount.

Salaries and Wages

The Salary and Wages information captures total Saudi compensation. The amounts should come from the company's payroll records. All compensation costs related to foreign expats should be excluded from this section.

Compensation costs include such items as salaries, wages, bonuses, commissions, overtime, and benefits. Benefits would include car allowances, transportation, healthcare, end of service awards, and other compensation related perks provided to the company's Saudi employees.

Saudi compensation costs related to trainers, supplier development, and research and development can be included in this section or in Section 4.0 Training & Development of Saudis, Section 5.0 Supplier and Customer Development, or Section 6.0 In-Kingdom Research & Development. Please keep in mind, however, that these costs cannot be included in more than one section.

Owner/Management Remuneration

Sometimes companies will offer substantial compensation to their owners or managers based on the performance of the company. For all practical purposes, such amounts are dividends, not compensation. As a result, in order to be included in Section 3.0, the compensation must be GOSI registered.

Saudi Expats

If the company employs any Saudi Nationals outside the Kingdom that are not reported in the GOSI numbers, then these employees' headcount and compensation amounts should be added in to the company's IK payroll amounts.

Human Resource Development Fund (HRDF) Reimbursements

If the company receives funding to help cover employee compensation and/or training costs from the government through programs such as HRDF, these reimbursements should be excluded from the IKTVA survey. In other words, the company is allowed to take credit for the training even though the costs may be partially offset by government funding.

Assignment of Saudi Headcount and Costs to Saudi Aramco

Similar to Section 2.0, the company can use the same Revenue Ratio to assign Saudi headcounts and payroll costs to Saudi Aramco. The same will apply to Sections 4.0,

5.0 and 6.0 of the IKTVA survey. If the company utilizes an alternative methodology, it will need to provide an overview of this methodology in the remarks column.

Section 4.0 Training & Development of Saudis

An important component of the IKTVA vision is to encourage the training and development of the Saudi workforce to ensure the Kingdom has enough skilled workers available to fill the positions that are being created. This section has two main components: (a) trained headcount and (b) training and development costs.

Headcount

Saudi Aramco's goal in analyzing Training & Development of Saudis is to gauge the percentage of the company's Saudi workforce which receives training during the year and the average spend per trainee. In order to do so, we are requesting that the company provides the number of Saudis trained during the year, regardless of where the training occurred, IK or OOK. Please note, however, that if a Saudi trainee attends more than one training course, the company may only count that employee as one trained headcount. For example, if an employee attended three training courses during the year, the company would only report one headcount for that employee. However, all of the expenses related to the three training sessions can be reported as Training and Development costs.

Training and Development Costs

Training and development costs can 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 training, whether performed in-house or externally, and technical or non-technical. Safety, leadership, soft skills, technical, and onboarding are all types of training that qualify. Sponsorships of the various training institutes located throughout the Kingdom can also be included.

As a general rule, costs incurred with OOK suppliers and foreign expat salary and wage costs should be excluded from the IKTVA survey. However, in the case of Training and Development of Saudis and Section 5.0 Supplier and Customer Development, these costs may be captured and reported in the company's IKTVA survey. Examples of costs to include would be:

- Travel and accommodations.
- Training and development courses.
- Annual software license fees related to training.
- Outside training consultants.

- The portion of compensation for expats related to training Saudis.
- Saudi Petroleum Service Polytechnic (SPSP), internship, and co-op sponsorship costs.
- Donations and contributions to training academies and institutes.

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. Also, if the compensation cost of Saudi employees participating in the training as either trainers or trainees are included in Section 3.0 above, then the costs cannot be included in this section. No costs should be counted twice.

Section 5.0 Supplier and Customer Development

Another important component of the IKTVA ratio consists of costs related to Supplier and Customer Development. Supplier and Customer Development Costs include activities such as supplier and customer training, supplier certification programs, design for manufacturability initiatives, quality control inspections, and qualification support.

Customer development costs would not include sales and marketing activities nor would they include installation, commissioning, or other costs that are contractually required. Only activities related to increasing the skill level and capabilities of the company's customer base may be included.

Similar to Section 4.0 Training & Development of Saudis, the company may include costs incurred from OOK suppliers or expat employees in this section. However, if any costs have already been included in Section 2.0 through 4.0, then they should be excluded here.

6.0 Section In-Kingdom Research & Development

IK costs related to performing research and development activities in the Kingdom are another component of the IKTVA ratio. These costs are a subset of costs reported in Section 7.0 In-Kingdom Investments. See Section 7.0 for more details.

Section 7.0 In-Kingdom Investments

This section captures two important items: Net capital expenditure additions and research and development (R&D) expenses for the year. Our goal is to gain an

understanding of the total level of investment in capital assets and R&D related to the company's IK operations, regardless of the source of those investments (IK or OOK).

Capital Expenditures

The Capital Expenditures amounts are derived from the amounts entered in Section 10.0 Capital Expenditure Net Additions. Section 7.0 totals include assets purchased during the year, even if purchased from OOK sources.

Research & Development Expenses

The Research & Development line item should contain the total amount of annual operating expenses related to research and development (R&D) activities conducted IK. Capitalized costs can only be included to the extent they are amortized. The types of costs that can be classified as R&D should be consistent with guidance provided by IFRS or Saudi Arabian Generally Accepted Accounting Principles.

In Section 7.0, the total research and development costs should include expat compensation and OOK goods and services. However, only the IK portion costs will be incorporated into Section 6.0 of the IKTVA ratio calculation. From 2016 onward (or all three years for first time filers), the company will need to show the breakdown of cost between IK and OOK.

Page 3: In-Kingdom Suppliers

Section 8.0 Top In-Kingdom Suppliers

This section captures the company's IK spend with its supply chain. In order to complete this section, most companies will utilize data from their purchasing system to accumulate total purchases during the year by supplier.

Next, they will eliminate OOK suppliers and any intercompany supply sources that are consolidated into the IKTVA survey. They will then remove those suppliers whose costs cannot be included. For an overview of the types of costs that are included and those that should be excluded, please see Section 2.0. Please keep in mind that these costs should represent income statement expenditures during the year on an accrual basis. For example, if significant, the company might need to adjust their purchasing data for timing differences and/or changes in inventory or base this table on consumption, not purchases.

After the supplier spend list is compiled, the company must sort the list in descending order based on amounts purchased for the most recent year reported. Once the company has the list, it can populate the table. Starting at the top of the list, input the following information into the table:

- Supplier's name.
- Supplier's commercial registration number.
- Brief description of the types of goods and/or services that the company procures.
- From the drop down menu, considering the types of goods and services provided, select the right segment for that supplier.

- For materials, select the correct option from the drop down menu to indicate whether they are produced IK or imported.
- From the drop down menu, select the source of IKTVA ratio whether the company has estimated the supplier's IKTVA ratio or has used Saudi Aramco guidance by keeping the auto-generated estimates (Estimated), or the IKTVA ratio was provided by that supplier (Provided).
- The percentage of spend with that supplier that represents Saudi Aramco's share. If the company is using the Revenue Ratio to allocate costs to Saudi Aramco, then nothing needs to be input. You can use the default calculation built into the spreadsheet. This should only be overwritten if the company is using Direct Costing to assign its costs to Saudi Aramco.
- Total purchases for the year for that supplier.
- Supplier's IKTVA ratio. The default setting for this field relies on the inputs for "Business Segment" and for materials "Procured Locally or Imported". This field automatically will be populated after selecting the supplier's segment. On the other hand, the ratio will be adjusted to 0% for materials if they are imported. However, the IKTVA ratio can be overwritten if it is provided by that supplier, or if the company has a strong justification of discarding the estimated ratio given by Saudi Aramco.

You will likely need to use an estimated IKTVA ratio for the majority of your suppliers. In order to give the company guidance and to ensure that all submissions are using the same ratio for the same tier 2 supplier, Saudi Aramco has compiled a list of types of businesses and estimated IKTVA ratios, and incorporated these ratios into the survey tool. This list is updated annually. For the most recent copy of the list, please visit our website (<https://www.iktva.sa/iktva-package/>).

Sometimes you will discover suppliers that provide goods or services that fit into multiple categories with different IKTVA rates. In these instances, you should assign the category and IKTVA score that represent the majority of the goods/services that your company buys from the named supplier or list the supplier on two separate lines.

It is also important to note the segment selected for that supplier should not be used to complete the "Brief Description of Goods/Services Provided" column. This column should be more definitive and describe what you are actually procuring from that supplier. The top IK supplier table also includes two lines that are specifically assigned to financing costs and expat benefits (see rows 59 and 60 on Page 3 In-Kingdom Suppliers). Instead of listing individual suppliers for these items, only summary totals are required. The remaining descriptive columns can remain blank.

Once the by-supplier detail totals 70% of the company's IK spend, the company can stop adding suppliers to the list. Any remaining IK purchases can be listed as "Other" (see last line on the table) and the company can use an IKTVA ratio of 100% for this line. Alternatively when the company reaches 50 suppliers, the company can also stop and add the remaining IK spend in "Other." However, if the supplier detail provided is less than 70%, then the IKTVA ratio applied to the Other row will be reduced accordingly.

Completing financing and expats benefits costs is not required in some cases. For example, if these items are not part of the 70% of the total goods and services, the amounts of financing costs and expats benefits can be added to the Other row.

The Total In-Kingdom Portion and Saudi Aramco Portion amounts from the table will automatically update Page 2 IKTVA Schedule's Goods and Services in Section 2.0.

Page 4: Saudi Jobs

Section 9.0 Saudi Jobs

One of the primary objectives of IKTVA is the creation of quality jobs for Saudis. In order to measure progress toward obtaining this goal, we have added Section 9.0 Saudi Jobs to the survey.

In this section, the company will categorize its total employment base into one of 10 categories according to the International Standard Classification of Occupations. This standard is published by the International Labour Organization based in Geneva, Switzerland (see <http://www.ilo.org/public/english/bureau/stat/isco/docs/resol08.pdf> for a copy of the standard).

The standard is very detailed and lists several hundred jobs under each major category group. We are only requiring employees to be assigned to one of the major categories. However, if you have questions about which category is appropriate, you can use the standard to drill down to specific job types to determine which major category is appropriate. The company will need to classify both Saudi and expat employees for 2016 and 2017. As mention in Section 3.0 Saudi Compensation, the headcount numbers should agree with the year-end headcounts reported to GOSI.

Page 5: Capital Investments

Section 10.0 Capital Expenditure Net Additions

The IKTVA survey includes capital expenditures that the company has made for its IK operations. For first time filers, the details for its annual capital expenditures are listed on Page 5a CAPEX Table, and summarized on Page 5 Capital Investments. Repeat filers only need to provide detail for one year on Page 5 Capital Investments.

Consistent with standard accounting practices, major refurbishments and repairs, if capitalized for financial reporting purposes, should also be included. However, construction in progress or assets that have not yet been placed in service should be excluded. These assets can be included once they are finished and placed in service. In addition, investment properties and personal use assets that are not needed to support the company's operations should be excluded.

K E Y T O P I C S

Distinguishing between IK and OOK sourced assets

Standard approach to depreciation

Excluded assets

For this section, the company will likely utilize data from its fixed asset system and list fixed asset additions and disposals summarized by asset type during the current year. Please note that disposals should only be deducted if included in a previous IKTVA survey. The amount deducted will be the net book value after allowing for depreciation on a 10-year straight-line basis. Disposals are netted with acquisitions by Asset Class to be reported in the IKTVA survey.

The company can determine the level of detail it would like to provide in this section. For those companies whose operations are not capital intensive and its IK depreciation and amortization are a relatively minor component of their cost structure, they can

simply categorize their capital asset additions and disposals by Asset Class for the relevant years on the OOK line, and move on to the next section. Their total **net** capital expenditure additions will be included in Section 7.0 In-Kingdom Investments, but their IKTVA ratio will be not impacted by any of these assets which might have been acquired IK.

Companies can choose to perform a more detailed analysis to categorize their capital asset additions and disposals by year into Asset Classes and then further divide them into two categories - those acquired IK and those acquired OOK. The company will need to know the description of the assets, their costs, and their acquisition sources. These details are necessary to complete the schedule. Please note that the additional effort required may only benefit companies that are in capital intensive industries and have procured a large portion of their assets from IK based suppliers. The remainder of this section applies to companies who have chosen to prepare the more detailed analysis.

For assets acquired from IK sources, the Asset Class determines which IKTVA ratio is applied to the acquisition price of the IK procured assets. Asset Class categories include:

Category	Examples
Land	Raw real estate
Land Improvements	Site improvements, utilities, fencing, paving, grading, concrete, infrastructure
Buildings	Open/enclosed sheds, office buildings, manufacturing facilities, warehouses, camps, portables
Building Improvements/Infrastructure	Water treatment, water heating, compressed air system, air conditioning, process cooling water, major electrical components (transformers, switchgear), lighting, poles, interconnect
Furniture and Fixtures	Office furniture, desks, cubicles, file cabinets, office chairs, etc.
Appliances	Refrigerators, ovens, washers/dryers
Manufacturing Equipment	Lathes, milling machines, CNC, grinders, rolling mills, welders, coating equipment, tooling, etc.
Support Equipment	Cranes, stands, dollies
Test Equipment	Test stands, test instruments, test tooling
IT and Telecom Equipment	Computers, copiers, telephone switches
Vehicles - Light	Trucks, vans, cars, trailers, fork lifts, etc.

Vehicles - Heavy	Construction equipment, semi's, mobile cranes
Process Equipment	Vessels, pumps, tanks, process compressors, heat transfer, etc.
Specialty Equipment	Heat treatment furnace/ equipment
Drilling	Onshore & offshore rigs
Other	

Please notice that the IKTVA ratio has already been populated based on the type of asset selected. The ratios are estimates established by Saudi Aramco. If a company strongly disagrees with the IKTVA ratio assigned to a particular asset within an Asset Class, it may select the "Other" asset type and input its own IKTVA ratio. If the company does so, it must provide auditable support for the ratio used in the IKTVA submission.

The same steps can be utilized for populating this schedule for the previous years (2007 to 2016). Doing so will not impact prior year IKTVA ratios. It will only impact 2016, 2017 and future years. Please note that providing capital asset information going back 11 years is optional. At a minimum, first time filers should include capital asset information on Page 5a CAPEX Table for the years referenced on Page 2 IKTVA Schedule.

Page 6: Depreciation and Amortization

Section 11.0 Depreciation & Amortization

Beginning with the 2016 IKTVA survey, Saudi Aramco incorporated depreciation of capital assets and amortization of intangible assets procured/developed IK into the IKTVA ratio. This change, however, will not impact IKTVA scores for years prior to 2016. Prior year results will not be restated. The increase in IKTVA ratio resulting from this change will only impact years 2016 onward.

For first time filers, Section 11.0 is automatically populated based on capital and intangible expenditure details provided in Section 10.0 Capital Expenditure Net Additions. For estimated useful lives, we selected a very simplified method. All of the assets acquired that year, even including land which is not normally depreciated, are depreciated or amortized over a 10 year life regardless of its actual useful life.

Companies that have previously submitted certified IKTVA surveys will input the in-Kingdom portion for years 2008 to 2016 from the prior year certified survey. Saudi Aramco will provide this data to your auditors at the same time they confirm revenue received from Saudi Aramco.

Page 7: Female Employment

Section 12.0 Female Employment

In this section, the company provides both headcount and cost information related to its female employees. Costs and headcounts related to Saudi females will be a subset of the information provided for total Saudis. Use the same guidance given in Section 3.0 Saudi Compensation and Section 4.0 Training & Development of Saudis to determine what to include and what to exclude from this section.

The company will also name the main roles of female employees, policies or initiatives in place to attract female participation, and the bottlenecks it faces for employing and retaining female employees. The information in this page will not impact the IKTVA ratio but is provided for informational purposes only.

Final Steps

Submitting the Company's Survey

Once the company has completed the survey and received the report from its auditor, the company can submit its survey through the website (<https://www.iktva.sa/survey-submissions/>). The submission should include the following:

1. A PDF of the full auditor's report.
2. A copy of the Management Representation Letter provided to the auditor. The Management Representation Letter should be signed by the company's top operational and financial officers and must include the company's stamp. No submissions will be accepted without the signatures or stamp. This letter should be included in the PDF report in item 1 above.
3. A copy of the survey tool/Excel file.

IMPORTANT: The Excel survey tool has been password protected to maintain the integrity of the formulas used to calculate and analyze your company's IKTVA data. All data input cells necessary to complete the survey are unlocked. This password protection feature should not be tampered with. Any Excel surveys submitted without the password protection in place will be rejected and the company will need to refile its survey using the approved Excel file.

No hard copies of the reports will be accepted. Only soft copies of the report and the Excel survey will be accepted.

Some Final Thoughts

We realize that it is nearly impossible to capture and provide details for every situation that the company may face in preparing its IKTVA survey. Our hope is that this guide will answer most of the questions a company may have. If your company has further questions or needs additional clarification, please feel free to: 1) view the

comprehensive IKTVA data, including frequently asked questions and answers, residing on the IKTVA website (www.iktva.sa); and/or 2) contact Saudi Aramco's IKTVA Support Unit at iktvasurveyinfo@aramco.com.

We appreciate your help and support of our IKTVA strategic initiative and look forward to achieving the IKTVA vision by 2021.

Sincerely,

The IKTVA Team