Automotive Aftermarket Parts Study for Local KSA Manufacturing and Regional Export
PRODUCT 14 – SHOCK ABSORBER & STRUT (FRONT & REAR)
<table>
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<tr>
<th>Section</th>
</tr>
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<tbody>
<tr>
<td>Key Stakeholders</td>
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<td>Why Invest in KSA?</td>
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<td>Global Automotive Industry Outlook</td>
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<td>What is the Regional and KSA Market Opportunity?</td>
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<td>Product Profile and Value Chain</td>
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<td>Incentives Overview</td>
</tr>
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<td>Overview</td>
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Industrial Clusters, Your Investment Enabler in the Kingdom of Saudi Arabia

IC is the key stakeholder, working with various agencies for investment promotion in KSA.

**Enabling the development of fast-growing, export-oriented industrial sectors in the Kingdom and also responsible for providing support in identification and activation of key enablers, driving processes and support companies to invest**

**Identify, approach and attract potential investors into KSA**

**Provides the finance and advisory services to support the growth and development of the local industrialisation in the Kingdom**


**Expand industrial base through growth in number of Cities and Industrial Output**

**This authority is concerned with opening up to global markets, and employing all its economic capabilities to encourage Saudi products in international markets, leverage competitive quality, and reach new products in order to meet the current stage requirements.**

**To establish, develop and operate the industrial cities and technology zones in partnership with the private sector, enabling us to provide integrated services that meet the needs of investors, contribute to community development, and preserve the environment.**
Why to invest in Saudi Arabia?
An economy poised to deliver phenomenal growth opportunities

THE KINGDOM

<table>
<thead>
<tr>
<th>TOTAL POPULATION</th>
<th>PERCENTAGE OF YOUTH¹</th>
<th>POPULATION GROWTH RATE²</th>
<th>SAUDI LABOUR FORCE</th>
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<tbody>
<tr>
<td>32.5 Million</td>
<td>50%</td>
<td>2.1%</td>
<td>5.7 Million</td>
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</table>

<table>
<thead>
<tr>
<th>NOMINAL GDP</th>
<th>GDP PER CAPITA</th>
<th>PORTS ON COASTLINE</th>
<th>FDI INWARD STOCK</th>
<th>INTERNET SPEED</th>
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<tr>
<td>$786 Billion</td>
<td>$23,339</td>
<td>7 Sea Ports, 4 Container Terminals</td>
<td>$264 Billion</td>
<td>6.7 MBps</td>
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</tbody>
</table>

¹ Under age of 30; ² Average yearly growth rate from 2014 to 2018. Note: 2018 data

Source: General Authority for Statistics; The World Bank, Organization for Economic Co-operation and Development
“Most improved places to do business: #1 Saudi Arabia”

The Report from World Bank Group:
- KSA is in the top 1 of improved countries, of doing business score
- KSA is located in place 62 of the 190 economies evaluated.

**What is measured in *Doing Business***?

<table>
<thead>
<tr>
<th>Starting a business</th>
<th>Getting a location</th>
<th>Accessing finance</th>
<th>Dealing with day-to-day operations</th>
<th>Operating in a secure business environment</th>
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</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>Employing workers</td>
<td>Dealing with construction permits</td>
<td>Getting electricity</td>
<td>Registering property</td>
</tr>
</tbody>
</table>

**TABLE 0.2 The 10 economies improving the most across three or more areas measured by *Doing Business* in 2018–19**

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of doing business rank</th>
<th>Change in ease of doing business score</th>
<th>Starting a business</th>
<th>Dealing with construction permits</th>
<th>Getting electricity</th>
<th>Registering property</th>
<th>Getting credit</th>
<th>Protecting minority investors</th>
<th>Paying taxes</th>
<th>Trading across borders</th>
<th>Enforcing contracts</th>
<th>Resolving insolvency</th>
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<tr>
<td>Saudi Arabia</td>
<td>62</td>
<td>7.7</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Jordan</td>
<td>75</td>
<td>7.6</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Togo</td>
<td>97</td>
<td>7.0</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td>✓</td>
</tr>
<tr>
<td>Bahrain</td>
<td>43</td>
<td>5.9</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: The World Bank Group
Global Automotive Industry Outlook
Middle East to Emerge as One of the Fastest Growing Automotive Markets Globally

Light Vehicle Sales Forecast, Global, 2018, 2029f (million units)

- **Europe**: +8% increase from 20.6 million in 2018 to 22.4 million in 2029f
- **Japan & Korea**: +42% increase from 6.9 million in 2018 to 39.1 million in 2029f
- **North America**: +39% increase from 20.7 million in 2018 to 22.4 million in 2029f
- **Brazil & Argentina**: +52% increase from 3.3 million in 2018 to 4.6 million in 2029f
- **China**: Highest Sales Growth with lower manufacturing footprint – Great opportunity for local production

Global Vehicle Production Heat Map

- **Europe**: +4% increase from 6.9 million in 2018 to 7.2 million in 2029f
- **Japan & Korea**: +4% increase from 7.2 million in 2018 to 7.2 million in 2029f

Light Vehicle Production Forecast, Global, 2018, 2029f (million units)

- **North America**: Production volume of 20.6 million units in 2018, forecasted to increase to 22.4 million units in 2029f
- **Europe**: Production volume of 6.9 million units in 2018, forecasted to increase to 7.2 million units in 2029f
- **Japan & Korea**: Production volume of 27.5 million units in 2018, forecasted to increase to 39.1 million units in 2029f
- **Brazil & Argentina**: Production volume of 4.6 million units in 2018, forecasted to increase to 7.0 million units in 2029f

Source: IHS Markit*, OICA, Frost & Sullivan Analysis

1 = Forecast: All values in Mn Units
(*) as provided by NICDP
MEA Demand – A Growth Story
This offers export opportunities to Saudi-based investors

Forecast of total Vehicles In Operation in Target Countries, 2029, Million Units

<table>
<thead>
<tr>
<th>Target Markets</th>
<th>Commercial Vehicles</th>
<th>Passenger Vehicles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSA</td>
<td>11.2%</td>
<td>88.8%</td>
<td>10.09 Mn</td>
</tr>
<tr>
<td>RoGCC</td>
<td>6.9%</td>
<td>93.1%</td>
<td>13.07 Mn</td>
</tr>
<tr>
<td>GAFTA</td>
<td>11.1%</td>
<td>88.9%</td>
<td>25.90 Mn</td>
</tr>
<tr>
<td>Non GAFTA</td>
<td>11.5%</td>
<td>88.5%</td>
<td>23.92 Mn</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10.5%</td>
<td>89.5%</td>
<td>72.17 Mn</td>
</tr>
</tbody>
</table>

Source: Frost & Sullivan analysis

MEA: Middle East & Africa, RoGCC = Rest of GCC, GAFTA = Grain and Feed Trade Association, NA = North Africa
RoGCC include Bahrain, UAE, Oman, Kuwait
GAFTA include Egypt, Tunisia, Morocco, Iraq, Libya, North Sudan, Lebanon and
Non GAFTA include Nigeria, Kenya, South Africa. Note: All values in Million Vehicles
The Kingdom’s expected rebound of the vehicle market set to create significant Opportunities for Automotive Component Manufacturers

Vehicle market sales likely to reach ~790K by 2025

- Vehicle parc, is expected to cross 10 million units by 2025, set to support growth of the vehicle parts market

<table>
<thead>
<tr>
<th></th>
<th>2018e</th>
<th>2025f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle parc – 2018</td>
<td>8.5 million</td>
<td>Largest GCC vehicle parc, accounts for ~49% of the total</td>
</tr>
<tr>
<td>Vehicle parc – 2025</td>
<td>10.09 million</td>
<td>Vehicle parc set to gain ~13% by 2025 to cross the 10 million mark</td>
</tr>
</tbody>
</table>

- ~10 Training institutes with capacity to produce 9,100 graduates every year: set to significantly boost availability of automotive skilled labour force in the Kingdom

- Private sector contribution to grow from 40% to 65% (Vision 2030): set to significantly boost competitiveness of the automotive manufacturing sector in KSA.

Source: IHS*, Frost & Sullivan analysis

(*) as provided by NICDP (Sales forecast)

LV=Light Vehicles, M/HCV=Medium/Heavy Commercial Vehicles

CAGR = Compound Annual Growth Rate
Shock Absorber & Strut Value Chain Assessment
Supply chain can be broken into manufacturing of 3 key sub-components

**Manufacturing Process Flow**

- **For Tubes:**
  - RM Inspection
  - 4 stage washing
  - Cut to length (Tube)
  - End chamfering
  - Roll marking
  - End swaging / flaring
  - ID burnishing / sizing
  - Ultrasonic washing

- **For Bars / Rods:**
  - RM Inspection
  - 4 stage washing
  - Cut to length
  - Facing and centering
  - 1st side turning
  - 2nd side turning
  - Thread rolling
  - Heat treatment
  - Shot blasting
  - OD grinding
  - OD super finish

- **For Piston / Valve Body:**
  - RM Inspection
  - Surface lapping
  - OD Teflon coating

**Assembly Process**

- Lower & upper cap and eye ring welding
- Rod and cap resistance welding
- Rod and cap inner arc welding
- Cap & inner tube pressing
- Cap and inner tube seam welding
- Lower mounting projecting welding
- Inner tube leak testing
- Upper mounting projection welding
- Inside and outside arc welding
- Piston head with rod assembly

**Source:** Expert Interviews, Frost & Sullivan analysis

**Key/Legend**

- Process/Raw Material present in the KSA, completely developed
- Process/Raw Material not present in the KSA
- Process/Raw Material is present in the KSA, needs development. Some of the processes exist for other industries but not for automotive parts manufacturing

Other child parts include eye ring (Lower & upper mount), rubber bush, outer tube, inter tube, inner tube, base valve unit, oil seal, O’ ring, packing washer, packing spring, piston ring, protector, seal cap, spring seat, brake hose bracket, clevis bracer, rebound valve unit, compression valve unit and outer spring.
Top Importers in 2017-18 as per part category type (HS Code)
Suspension Shock-absorbers – 87088000

• Al Qahtani
• Al Jazira Autoparts
• Babtain
• United Motor Co. (UMC)
• Abdul Latif Jameel
• Universal Motor Agency (UMA)
• Juffali Brothers
• Alhazim
• NAI (Mercedes Trucks)

Spare Parts Distribution Structure, KSA, 2017

*Company-owned fleets typically include vans, but can also include HCV, MCV in case of larger distributors.

Source: Saudi Customs, Frost & Sullivan Analysis
Shock Absorber & Strut Market Potential
Frost & Sullivan expects Shock Absorbers market to grow rapidly by 2029 (CAGR 5.7% in value terms)

**Market Summary**

<table>
<thead>
<tr>
<th>Total Available Market*</th>
<th>Demand – 2020f</th>
<th>Demand 2029f</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSA+ Export markets</td>
<td>85.52 Mn Units</td>
<td>KSA+ Export markets</td>
</tr>
<tr>
<td></td>
<td>116.41 Mn Units</td>
<td>116.41 Mn Units</td>
</tr>
<tr>
<td>KSA+ Export markets</td>
<td>40.62 Mn Units</td>
<td>KSA+ Export markets</td>
</tr>
<tr>
<td></td>
<td>55.38 Mn Units</td>
<td>55.38 Mn Units</td>
</tr>
<tr>
<td>KSA+ Export markets</td>
<td>0.79 Mn Units</td>
<td>KSA+ Export markets</td>
</tr>
<tr>
<td></td>
<td>1.00 Mn Units</td>
<td>1.00 Mn Units</td>
</tr>
</tbody>
</table>

Target Market Share is considered as 7% of Total Addressable Market for KSA and 1% for export demand

<table>
<thead>
<tr>
<th>Target Market Share</th>
<th>KSA + Export Market (Target Market Share) Forecast, 2020-2029, USD Mn</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
</tr>
<tr>
<td>Target Market Share</td>
<td>96.17</td>
</tr>
</tbody>
</table>

CAGR: 5.7%

Target Market Volume Growth = CAGR of ~2.6% from 2020 to 2029

**Key Raw Material/Component**

- Raw material/s used for shock absorber and strut manufacturing are Aluminium die castings of tube, piston and rod.
- Shock absorber & strut is made of 3 key components – Tubes, Piston body and Rods.

(*) Total Available Market = Total Market (local+ exports);
(^) Total Addressable Market = Total Market - Genuine parts consumed at Authorised Service Stations - Parts consumed by >12 years old vehicles
CAGR = Compound Annual Growth Rate
Note: Market Value considers 3% year on year inflation in product pricing (please refer to financial model)
Financial Feasibility Assessment for Shock Absorber & Strut

Financially Feasible – If OEM demand added then Kingdom will require multiple suppliers

Business Case Details

- **Product is feasible for manufacturing in KSA**
- **If there is no vehicle assembly (in KSA) in the period of manufacturing, the current planned production facility is capable of catering to local and export demands**
- **In case of vehicle assembly in KSA, additional capacity will be required**
- **Target Market Share = 7% of Total Addressable Market in KSA demand + 1% of Total Addressable Market in exports demand**

### 2019-2029 Shock Absorber & Strut Market and Project Details

**Market Dynamics**

- **Capacity up to 2029**: 2,000,000 units

**Shock Absorber & Strut Market Potential (Mn kits)**

- **For Aftermarket only**

### Project Overview

- **Proposed Plant Capacity**: ~2,000,000 units
- **Total Required CAPEX (USD Mn)**: $19.7 to $21.6
- **Averaged Expected Revenues (USD Mn)**: $98.8 to $123.5
- **Averaged OPEX (USD Mn)**: $93.5 to $115.9
- **Land Area Requirement (in m²)**: ~10,000
- **Product Cost Assumed (Avg OE sale price to distributor)**: $94.3 to $117.9

### Project Feasibility

- **Average EBITDA (%)**: 5.3% to 6.1%
- **Project IRR (%)**: 14.7% to 18.9%
- **Equity IRR (%)**: 20.2% to 25.6%
- **NPV (USD Mn)**: $30.5 to $47.9
- **Payback Period (years)**: 7.20 to 9.01

### Macroeconomic Assessment

- **Job Creation (Direct)**: ~303
- **Saudisation**: ~45%

---

1. Based on market requirement and gradual capacity utilisation, (2) Average for 10 years (3) EBITDA, based on industry benchmark and Frost & Sullivan analysis
2. Revenue at sales price to first tier of distribution (i.e. Distributor)
3. Source: Frost & Sullivan Analysis, Interviews with Industry Experts

(*) IRR: Internal Rate of Return; NPV: Net Present Value
Current Incentives Enabling Industrialization in the Kingdom

**Incentive* Schemes offered by Saudi Arabia**

**Loans:**
- SIDF loan with for up to 20 years and up to 75% of the capital available on demand^1

**Tax Incentives:**
- Low 20% corporate income tax on Profits only*
- Special tax deductions for projects in developing regions

**Low Cost Industrial Land:**
- MODON: $0.27 - 1.07/m²
- RCJY: $1.2/m²
- KAEC: $3.7/m²

**Import Tariff Exemptions:**
- At component level
- At raw material level
- At plant machinery & equipment level

**Human Capital Development by HRDF(Saudi Employees):**
- Training Support
- Skilled Labor Database Support

**Low Utility Cost:**
- Power at USD $ 0.048 per kWh for industrial sector
- Water at USD $ 0.5 - US $ 1.35 per cubic meter (by Vol)
- Natural gas at US $ 1.25 per MMBTU
- Ethane at US $ 1.75 per MMBTU

**Saudi Export Development Authority:**
- Saudi EXIM Bank will provide three categories of financial products: Direct Financing, Indirect Finance and Insurance for export goods

**6 HOURS**
- Most of Europe’s markets within 6 hours*

**4 HOURS**
- All of Asia’s key markets within 4 hours*

**7 HOURS**
- 7 hours* from half the world’s population

*Incentives considered in Financial Model calculations

(*) Financial model provides option of choosing 10, 15 and 20 year SIDF Term

Source: NICDP, MODON, RCJY, KAEC, SIDF, SAGIA, SAUDI Export Authority
Addendum
Shock Absorber & Strut : Product Profile

SHOCK ABSORBER & STRUT FOR AUTOMOTIVE APPLICATIONS:

PRODUCT DEFINITION:

- Shock absorbers are the key component of suspension system. They control the impact and rebound movement of the vehicle’s springs and suspension.

- The key components of shock absorber are a piston, a coil, and hydraulic fluid. When the car wheel dips down, the shock initiates a compression cycle, and a piston exerts pressure on hydraulic fluid in the upper chamber of the device. The fluid serves to slow down the coil as it relaxes back into place, and this helps prevent an excessively bumpy feel to the ride.

- Struts are the structural part of the suspension system and are used on the front end of every front wheel drive vehicle.

- A strut integrates numerous different suspension parts into one compact assembly.

Source: Frost & Sullivan analysis
### Key Assumptions Pertaining to Shock Absorber & Strut Business Case propositions

<table>
<thead>
<tr>
<th>Sections</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Market Opportunity</td>
<td>2. Frost &amp; Sullivan Analysis and retained knowledge base</td>
</tr>
<tr>
<td>KSA – Industry Overview</td>
<td>3. Product/Component spend norms, machineries, tools are basis Frost &amp; Sullivan retained knowledge and consultation with industry experts</td>
</tr>
<tr>
<td>Financial Feasibility</td>
<td>4. Cost inputs concerning Manpower, Construction and CAPEX expenditure, Utilities etc. are derived from consultation with industry &amp; manufacturing experts and Compass International</td>
</tr>
<tr>
<td></td>
<td>5. Project feasibility related specifics are derived from Sustainable model developed by Frost &amp; Sullivan</td>
</tr>
<tr>
<td></td>
<td>6. 100% Saudi Investment assumed (can be changed in the model)</td>
</tr>
<tr>
<td></td>
<td>7. Equity, Debt Ratio assumed at 50:50, with financing from SIDF</td>
</tr>
</tbody>
</table>

Source: Experts Interviews & Frost & Sullivan analysis
### Specific Assumptions Pertaining to Shock Absorber & Strut Business Case Propositions – Manpower Estimates

<table>
<thead>
<tr>
<th></th>
<th>FINANCE &amp; IT</th>
<th>ENGG, R&amp;D</th>
<th>SALES &amp; MKTG</th>
<th>MFG</th>
<th>QA</th>
<th>PURCHASE</th>
<th>MAINTENANCE</th>
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<td>ENGG/OFFICER</td>
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<td><strong>6</strong></td>
<td><strong>15</strong></td>
<td><strong>6</strong></td>
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<td><strong>23</strong></td>
<td><strong>21</strong></td>
<td><strong>21</strong></td>
<td><strong>6</strong></td>
<td><strong>301</strong></td>
</tr>
</tbody>
</table>

+ 1 Plant Head, 1 Exec Asst

Source: Experts Interviews & Frost & Sullivan analysis
Specific Assumptions Pertaining to Shock Absorber & Strut Business Case Propositions – Production Volume

<table>
<thead>
<tr>
<th></th>
<th>Production Volumes for Shock Absorber &amp; Strut</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Per Day</strong></td>
<td>~8,000</td>
</tr>
<tr>
<td><strong>Per Month</strong></td>
<td>~160,000</td>
</tr>
<tr>
<td><strong>Per Year</strong></td>
<td>~2 Million</td>
</tr>
</tbody>
</table>

**Other assumptions:**

- Total Land area – 10,000 Sq. M.
- Total constructed area – 5,000 Sq. M. (At 2 stage ramp up)
- Shift time – 9 hours
- 2 shifts per day
- 5 days a week
- 250 days a year

Source: Experts Interviews & Frost & Sullivan analysis
Assumptions

Financial Feasibility Assumptions

**Investment Details**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Equity</th>
<th>Commercial Bank Loan</th>
<th>SIDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>25.0%</td>
<td>25.0%</td>
<td>50.0%</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Cost of Equity</th>
<th>Cost of Commercial Bank Loan</th>
<th>SIDF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>12.0%</td>
<td>6.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>- Tenure of Loan</td>
<td>7 Years</td>
<td>7 Years</td>
<td>10 Years</td>
</tr>
<tr>
<td>- Moratorium Period</td>
<td>1 Years</td>
<td></td>
<td>3 Years</td>
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</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Cost of Overdraft Facility</th>
<th>Minimum Cash Balance(USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>8.0%</td>
<td>500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Saudi Investor</th>
<th>Foreign Investor</th>
</tr>
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<tbody>
<tr>
<td>Percent</td>
<td>100.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**New Assets**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Equity Infusion</th>
<th>Commercial Bank Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>50.0%</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**Taxation**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Zakat Tax</th>
<th>Corporate Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Saudi Investor</td>
<td>Foreign Investor</td>
</tr>
<tr>
<td>Percent</td>
<td>2.5%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

**Capital Expenditure**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Depreciation</th>
<th>Other Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life of Asset</td>
<td>Salvae Value</td>
<td>Depreciation Method</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>14</td>
<td>0</td>
</tr>
</tbody>
</table>

**Contingency**

- Building and Civil Works: 25%
- Plant and machinery: 30%
- Other Tangible Assets: 25%
- Pre-Operative Expenses: 25%

- 10 Year Model (Period 2019-2029)
- 20-25% Contingency on Opex (Specially Raw Materials)
- ~3% Year on Year Inflation
- 100% Saudi investment, no foreign partners
- Land Price (per Sq. M.) = $1.07 with 2% inflation year on year (MODON Price)
- Equity, Debt Ratio assumed at 50:50, with financing from SIDF
- Plant set up time - 1 year (no revenue in 2019)
- Technology licensing costs – 4% considered as Royalty Fees

Source: Frost & Sullivan analysis