

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
1 OF 36

CONTENT: This instruction outlines the procedures followed in accounting for activities related to the drilling of wells whether they are for oil and gas exploration, oil and gas field development; or for drilling activities not related to oil and gas production. The text of this instruction includes:

1. Glossary
2. Background
3. Accumulation of Well Costs
4. Water Wells Drilled for Non-Drilling Organizations – Type Prefix 58
5. Workover Expense (NDE) - Type Prefixes 59, 61, 64, and 65
6. Water Supply Wells - Type Prefixes 62 and 63
7. Development Wells - Type Prefix 66
8. Development Workover Wells- Type Prefix 71, 72, 73 and 74
9. Exploratory Wells - Type Prefix 75
10. Wells Costs: Overhead and Direct Costs
11. Offshore Wells
12. Closing of Crude Oil/Water Well Accounts and Capitalization
13. Closing of Gas Wells
14. Well Abandonment Costs
15. Intangible Properties
16. Responsibilities
17. Reports
18. Summary of Well Accounts
19. Drilling Area Location Codes
20. Work Breakdown Structure Phases
21. Accounting Flow Chart

1. **GLOSSARY**

1.1 **Abbreviation & Acronyms**

AP&SD	-	Accounting Policies & Systems Department
CAD	-	Contract Administration Division/Planning & Technical Services/ Drilling & Workover
D&BI-19U	-	Drilling & BI-1900 Unit/Project & Fixed Assets Accounting Division/Operation Accounting Department
D&WO	-	Drilling & Workover
DTD	-	Drilling Technical Department/D&WO
DRLG	-	Drilling (Admin Department)
D&WOSD	-	Drilling & Workover Services Department
EA&CG	-	Engineering Analysis, Forecasting & Compliance Group/Drilling Technical Department
EP&SS	-	Exploration Planning & Support Staff/Exploration
ESP	-	Electric Submersible Pump
FA&PAD	-	Financial Analysis & Performance Advisory Department

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
2 OF 36

GE&DDD	-	Gas Exploration & Development Drilling Department
IDC	-	Intangible Development Cost
KMDD	-	Khurais/Manifa Drilling Department
KPI	-	Key Performance Indicators
NAODD	-	NA Oil Drilling Department
NDE	-	Net Direct Expenditures
OAD	-	Operations Accounting Department
ODD	-	Offshore Drilling Department
P&ASG	-	Planning & Accounting Services Group/P&TS/D&WO
P&FAAD	-	Project & Fixed Assets Accounting Division/OAD
P&TS	-	Planning & Technical Services
PAD	-	Payable Accounting Division/OAD
PAU	-	Project Accounting Unit/P&FAAD
PED	-	Petroleum Engineering & Development/Exploration & Producing
SAODD	-	SA Oil Drilling Department
SKF	-	Statistical Key Figure
WBS	-	Work Breakdown Structure
WOD	-	Workover Department
VBV	-	Virtual Business Unit
BI – 60	-	Development Budget Program (See GI 20-101)
BI – 33	-	Exploration Budget Program (See GI 20-081)

1.2 Related Saudi Aramco Forms

SA-670	-	Drilling Authorization Cable
SA-774	-	Journal Entry
SA-6208	-	Well Location & Drilling Approval
SA-9032-1	-	Create Asset Master Data
SA-630	-	Capital Asset Change Authorization

1.3 Reference to Other GI/AI

GI 020.081	-	Exploration Budget & Program
GI 020.101	-	Development Budget & Program
GI 216.600	-	Accounting Basic Code System
GI 216.815	-	Exploration Costs
GI 216.965	-	Cost Distribution Rates
AI 210	-	Well Abandonment

1.4 Type Prefixes

58	-	Water Wells Drilled for non-Drilling Organizations
59	-	Offshore – Pressure Maintenance
61	-	Onshore – Production
62	-	Water Wells for Injection

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
3 OF 36

- 63 - Water Supply for Drilling Support
- 64 - Offshore - Producing
- 65 - Onshore - Pressure Maintenance
- 66 - Development Wells - Oil & Gas
- 71 - Development Workover Wells - Horizontal Short Radius or Horizontal Side Track
- 72 - Development Workover Wells - New ESP, Gravel Pack, Sand Screen and Gas Lift
- 73 - Development Workover Wells - Re-completion and Deepening
- 74 - Development Workover Wells - Fracture & Pack
- 75 - Exploratory Wells - Oil & Gas

2. BACKGROUND

Well development, maintenance, and improvement costs are controlled through unique Work Breakdown Structure/s (accounts). Well accounts accumulate all costs attributable to drilling activities. However, they do not include the cost of exploration or land acquisition. Well costs also include allocated rig depreciation and indirect costs such as drilling administrative expenses which are well related but not attributable to specific wells.

Well costs are grouped by type of well, and each type of well is identified by a unique accounting type prefix code. Incomplete well costs are classified as either tangible costs (direct materials) or intangible costs which include everything else.

3. ACCUMULATION OF WELL COSTS**3.1 Tangible and Intangible Costs**

All costs are divided into tangible and intangible except NDE workovers and wells drilled for non-drilling organizations (section 4.0). The categorization is based on type prefix, cost element and phase number.

Tangible costs consist of direct materials (cost elements 7205001, 7205010 and 7205011) permanently installed in the well with phases 053 (Producing Equipment), 054 (Casing), 056 (Tree), 057 (Down Hole Drilling Equipment Accessories), 075 (Special Equipment), and all costs incurred in producing water supply wells for injection (type prefix 62's).

Intangible Costs which is also called Intangible Development Costs (IDC) include costs of labor, prorates, overhead, and indirect materials. All costs incurred in drilling Type Prefix 63 "Shallow Water Wells for Drilling Support" are intangible costs.

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
4 OF 36**3.2 Well Account Numbering**

Well accounts or WBS consist of a two-digit type prefix account number followed by a five-digit, four-digit and three-digit prime account numbers. The type prefix represents the type of activity; e.g., drilling exploratory, development or water well, performing a workover, etc. The first two digits of the five-digit prime numbers represent the year; e.g., 07 for 2007, while three digits represent the field. The next four digits represent the well number. From year 2002 to 2005, the first digit of the well number represented a well sub-type of drilling, e.g., (0) was normal drilling, (5) was New ESP/Gravel Pack, (6) was Re-Completion of Gas wells and (8) was Converting vertical wells into Horizontal Short Radius (onshore) or Horizontal Side Track (offshore). These sub-types have been established now as a well type, see section 8.0. The well is further broken down into phases (or sub item) in three-digit numbers.

For example: WBS No. 66-08050-0503-074 is oil producing well.

1. Type Prefix: 66
2. Year: 08 (Yr. 2008)
3. Field: 050 (Abqaiq)
4. Well Number: 0503
5. Well Phase: 074

3.3 Settlements

Well account costs are charged to a balance sheet or income statement account depending on whether the cost is tangible, intangible, workover expense, or incurred for a non-drilling organization through settlement rules. These settlement rules are pre-programmed via the automatic well creation routine ZP0072 and table ZPWELL_STRUCTURE. These settlement rules transfer the costs from the WBS. Each month the tangible costs are transferred through phase 999 to a General Ledger (Asset Under Construction) account, through phase 998 for Intangible Development Costs to IDC asset account, or to a cost center account in the case of workover expense. SAP well type is referenced in the table ZPWELL_STRUCTURE instead of type prefix. The equivalent SAP well type of each type prefix is shown in Section 18.

3.4 Overheads

Overheads are discussed in section 10 of this GI.

3.5 Exploration Costs

Exploration costs are costs incurred in the search for oil and gas reserves, including geological and geophysical studies. Accounting for exploration costs is

GENERAL INSTRUCTION MANUALISSUING
ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENTISSUE DATE
10-25-08 REPLACES
10-07-03

SUBJECT WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAK PAGE NO.
5 OF 36

covered in GI 216.815.

3.6 Intangible Properties

The term "Intangible Properties" refers to the acquisition cost of obtaining drilling sites. Acquisition costs are accumulated in Account 2008011 (Intangible Properties) and amortized over fifteen years. Intangible Properties are discussed in Section 15.

3.7 Approval Authority

Drilling & Workover and Exploration Organizations will create and release all well accounts (WBS) elements. D&BI-19U/P&FAAD will unblock (by changing the FBLK status code) the WBS account phases when the documentation is received. The authority to unblock/open well accounts for each type of well is detailed below. However in exceptional cases, D&BI-19U/P&FAAD may unblock WBS elements (pending receipt of drilling authorizations) upon written request from DTD/D&WO. D&BI-19U/P&FAAD will submit later, through the Manager, OAD, a list of wells unblocked without drilling authorization to the EAF&CG/DTT/D&WO for necessary follow-up. The authority to unblock well accounts discussed below may be re-delegated in writing to individuals at lower levels of management. D&BI-19U/P&FAAD must receive a copy of any such authorization.

4. WATER WELLS DRILLED FOR NON-DRILLING ORGANIZATIONS – TYPE PREFIX 58

Type Prefix 58 costs are drilling costs or workover expense incurred for water wells drilled for non-drilling organizations such as construction projects, residential camps, governmental requirements, etc.

4.1 Authorization to Open Well Account

Well accounts (WBS Elements) are created by Drilling and Workover and the phases are created and unblocked by D&BI-19U/P&FAAD after receiving a Drilling Authorization approved by the Vice President/Executive Director of Drilling & Workover, or after receiving the Well Drilling Request approved by the requesting Project Manager or other authorized individual. This authority may be re-delegated in writing to individuals at lower levels of management within Drilling & Workover. D&BI-19U /P&FAAD must receive a copy of any such authorization. Well account opening requests sent to D&BI-19U/P&FAAD must be forwarded with the appropriate cost centers for cost accountability purposes (full cost and KPI.)

4.2 Accounting

For Type Prefix 58 wells costs, the costs settle from the well account to another

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
6 OF 36

Type Prefix 10 (general construction projects) or other accounts. The credits are booked to Type Prefix 58, Phase 999, by original cost elements; the debit also by original cost elements is to a Type Prefix 10 account set up to accumulate the costs relating to the project. Type Prefix 10 accounts accumulate to Account 2045001, Incomplete Construction, and finally to the project's capital asset general ledger accounts upon completion. Type Prefix 58 costs may also be expensed to an organization's cost center. See section 21 for accounting flow chart.

5. WORKOVER EXPENSE (NDE) – TYPE PREFIXES 59, 61, 64, AND 65**5.1 Workovers**

Workovers are remedial works on completed exploratory or development wells for the primary purpose of maintaining maximum producing rates and extending useful life. Examples of workovers are as follows:

- 5.1.1 Perforation of casing on wells to obtain production from currently producing zones.
- 5.1.2 Re-evaluation of the producing formation.
- 5.1.3 Clearing sand from the producing zones.
- 5.1.4 Squeeze cementing/blocking the leakage.
- 5.1.5 Casing repair or replacement.
- 5.1.6 Repair or replace surface equipment.
- 5.1.7 Conversion to another well type.
- 5.1.8 Wellhead repair work.
- 5.1.9 Any other works of a remedial or stimulate nature even though additional reserves are thus made available.

5.2 Workover Costs are Classified by Type Prefix as Follows:

Type Prefix 59	Offshore Pressure Maintenance Expense
Type Prefix 61	Onshore Producing Expense
Type Prefix 64	Offshore Producing Expense
Type Prefix 65	Onshore Pressure Maintenance Expense

5.3 Accounting

Costs in the above Workover type prefix's are distributed through settlement rules to the appropriate Cost Center as follows:

Type Prefix 59	761-920, (except for field 19 Abu Saf'ah which goes to 663-444)
Type Prefix 61	760-910
Type Prefix 64	761-930, (except for field 19 Abu Saf'ah which goes to 663-444)

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
7 OF 36

Type Prefix 65 760-900

Each group of cost (i.e. labor, employee benefits, invoiced labor, etc) of the above cost centers together with other drilling & workover cost centers (cost center group CE001) are expensed by allocating these to VBU cost centers 688000 to 688116 based on SKF (SKF CE001) of barrel of oil equivalent, which are classified into the main product lines (Producing, Pipeline, Refining, and Master Gas System) under the structure of cost center group SAOVBUTB. Each product line's cost is categorized into Operating Expense, Administrative & General Expense, Direct Overhead Expense, Operational Investment Overhead, and Depreciation Accounts (797XXX accounts) based on cost element grouping (cost element group SAOCETB1). See accounting flow chart in section 21.

The allocation process is automatically performed by running SAP assessment cycle E0109S periodically. The parameters of E0109S are displayed in SAP transaction KSU3. SAP transactions KSH3 and KAH3 in SAP Controlling display the structures of cost center groups and cost element groups respectively.

5.4 Authorization to Open Well Account

Well accounts (WBS Elements) are created by Drilling and Workover and the phases are created and unblocked by D&BI-19U /P&FAAD upon receipt of Workover Schedule and/or Workover Charge Number Opening Letter authorized by DTD/D&WO.

5.5 Closing Workover Wells Accounts

A Workover well account should be closed at each year-end provided it has been at least 9 months after rig release or if requested in the Authorization Letter. All well accounts must remain open for the entire fiscal year to ensure that each well receives its share of costs allocated via assessment cycles (section 10). Phase 074 may be set with status code REL and phase 998 with "REL" if the well has incurred rig days during the year.

6. WATER SUPPLY WELLS – TYPE PREFIXES 62 AND 63**6.1 Type Prefix 62 and 63 are Oil and Gas Related Wells**

Water supply wells accounted for in Type Prefixes 62 and 63 are wells drilled to supply water for drilling support or injection.

6.2 Water Supply Wells for Injection – Type Prefix 62

Type prefix 62 "Water Supply Wells for Injection" accumulates costs for wells drilled to supply water for feeding injector wells; also water supply wells are used

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
8 OF 36

for salt water wash.

6.2.1 Accounting

All Type Prefix 62 costs are tangible costs. These costs are settled to Account 2045004, "Incomplete Wells Plant". The cost of completed wells are transferred from Account 2045004 to 2002102, Wells-Oil Gas& Injection, or 2000102/2000105, Development Wells (Crude)/Pressure Maintenance (Crude). See accounting flow chart in section 21.

6.3 Shallow Water Wells for Drilling Support-Type Prefix 63

Type Prefix 63 "Shallow Water Wells for Drilling Support" accumulates the costs of wells drilled to supply water for mud-mixing and other operating requirements in support of the drilling of exploratory and development wells.

6.3.1 Accounting

All Type Prefix 63 costs are intangible costs. These costs are settled to asset record for IDC asset class – oil (38002-00), general ledger (GL) account, 2008002 or Gas asset class (38042-00), GL account, 2008042. See accounting flow chart in section 21.

6.4 Authorization to Open Well Account

The authorization to open (unblock for posting) Type Prefix 62 wells is the same as that for Type Prefix 66 covered in Section 7. The authorization to open Type Prefix 63 is the same as Type Prefix 75 covered in Section 9, or as Type Prefix 66, depending on whether the well is for Exploratory Water Supply or for Development Water Supply. This authority may be re-delegated in writing to the Manager of D&WOSD. D&BI-19U /P&FAAD must receive a copy of any such authorization

7. DEVELOPMENT WELLS – TYPE PREFIX 66

Development Wells are wells drilled in a proven area for producing oil or gas or supporting production through pressure maintenance or secondary recovery.

7.1 Types of Development Wells**7.1.1 Producing well**

A well drilled for the purpose of producing oil or gas.

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
9 OF 36**7.1.2 Observation Well**

A well drilled or converted for use in monitoring data on water levels and pressure, gas pressure, oil-water contact, oil-gas contact, etc with respect to producing wells or directly related to the development and evaluation of the reservoir.

7.1.3 Injector Well

A well drilled for the purpose of injecting water, gas, or LPG into the pore spaces in reservoir rock to cause oil or gas to flow into adjacent, producing wells.

7.1.4 Salt Water Disposal Well

Oil and gas reservoirs are usually found in porous rocks, which also contain saltwater. This saltwater, which accompanies the oil and gas to the surface, can be disposed in two ways: 1) Returned by fluid injection into the reservoir where it originated for secondary or enhanced oil recovery; or 2) Injected into underground porous rock formations not productive of oil or gas, and sealed above and below by unbroken, impermeable strata. Saltwater disposal wells use this second method to manage saltwater.

7.1.5 Development Well

A well drilled strictly for the purpose of serving as a producer, an injector, or an observation well in a reservoir undergoing or designated for development. This well type includes both initial and the subsequent phases and is located within booked reserves.

7.1.6 Delineation Well

A well drilled to define the vertical and areal volumetric extent of a discovered hydrocarbon pool in the absence of adequate seismic data. This well type is intended to locate the hydrocarbon water contact and other physical limits of the hydrocarbon pool such as faults and pinchouts if not defined by seismic data. It is intended to convert potential reserves and possible hydrocarbon resources to proved reserves.

7.1.7 Evaluation/Appraisal Well

A well drilled to assess reservoir continuity, gain information on rock and fluid characteristics, test reservoir productivity or injectivity, monitor fluid distributions, test a new technology, technique or methodology, and/or investigate some

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
10 OF 36

production problems. This well type is located within proved and probable reserves.

7.1.8 Combination Well

A well drilled in a field to develop or evaluate a producing reservoir under BI-60 and deepened under BI-33 to test a deeper pool in another reservoir.

7.2 Development Wells Accounting

Development Well charges can be tangible or intangible. The settlement rule will classify the cost as tangible or intangible based on the sub-item and cost element. See accounting flow chart in section 21.

7.2.1 Tangible Costs

Tangible charges are settled to general ledger account 2045004, "Incomplete Wells Plant".

7.2.2 Intangible Costs

Intangible charges are settled to asset record for IDC asset class Oil (38002-00), GL account 2008002, IDC (Crude), or Gas asset class (38042-00), GL account 2008042, IDC (Gas).

7.3 Authorization to Open the Well account

Well Accounts (WBS Element) are created by D&WO. Upon receipt of Well Location & Drilling Approval form (SA-6208) for water wells or "Well Drilling Authorization" letter issued by Reservoir Management Department and approved by the Vice President/Executive Director of PED, D&WO authorizes D&BI-19U /P&FAAD to create and open (unblock) phases upon receipt of a letter from DTD/D&WO.

7.4 Development Seismic Activity

Type Prefix 66 accounts accumulate costs of seismic activities to develop the fields. The WBS accounts used for seismic survey costs are in the form 66-xxxxx-xxxx-xxx. The costs accumulated in these accounts are classified as intangible. D&BI-19U/P&FAAD will initiate WBS closing procedures even without closing request for WBS opened without charges for 3 years.

7.5 Authorization to Change the Wells Drilled Under BI-33 to BI-60

Vice President or the Executive Director of D&WO is authorized to approve the request received from Vice President or the Executive Director of Exploration to

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
11 OF 36

open development well account to change wells drilled under BI-33 to BI-60.

8. DEVELOPMENT WORKOVER WELLS – TYPE PREFIX 71, 72, 73 & 74

Development Workover Horizontal and Re-Completion drilling is a new technique that uses an existing well bore to begin new drilling to access reserves bypassed by the existing well. Development Workover wells should be budgeted and accounted for as BI-60.

8.1 Types of Development Workover Wells**8.1.1 Horizontal Short Radius or Horizontal Side Track Well (T/C 71)**

A well assigned to convert from vertical to horizontal or drill more new footage to increase the oil or gas production.

8.1.2 ESP, Gravel Pack, Gas Lift and Sand Screen Installation Well (T/C 72)

A well assigned to install a new ESP, Gravel Pack and Sand Screen to increase the oil production.

8.1.3 Re-completion, Gas lift & Deepening Well (T/C 73)

A well assigned to run the completion or deepening the well in a new zone or re-completing a well in a new zone to increase the production of that well.

8.1.4 Frac & Pack Well (T/C 74)

A well assigned to increase the production through fracture, stimulation and gravel packing simultaneously.

8.2 Development Workover Wells Accounting

Development Workover Well charges can be tangible & intangible. The settlement rule will classify the cost as tangible or intangible based on the sub-item and cost element as discussed in section 3 above.

8.2.1 Tangible Costs

Tangible charges are settled to general ledger account 2045004, "Incomplete Wells Plant".

8.2.2 Intangible Costs

Intangible charges are settled to asset record for IDC asset class-oil (38002-

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
12 OF 36

00), GL account 2008002, or Gas asset class (38042-00), GL account 2008042.

8.3 Authorization to Open the Well Account

Well accounts (WBS Elements) are created by D&WO and the phases are created and unblocked by D&BI-19U /P&FAAD upon receipt of a Workover Schedule and/or a Workover Charge Number Opening Letter authorized by DTD/D&WO.

9. EXPLORATORY WELLS – TYPE PREFIX 75

Exploratory Wells are wells drilled in unproven areas for the purpose of locating new oil and gas reserves.

9.1 Types of Exploratory Wells**9.1.1 Wildcat Well**

A well drilled to test a potential hydrocarbon trap where hydrocarbons have not previously been discovered. The area is one in which geological and geophysical studies have been completed. This well type is supposed to convert undiscovered hydrocarbon resources, including possible, conceptual and speculative resources into reserves.

9.1.2 Stratigraphic Test Well

A well drilled to obtain stratigraphic information usually far from existing well control.

9.1.3 Deeper Pool or Shallower Test Well

A well located within or on the flank of a field, and designed to explore for hydrocarbons in a deeper or shallower reservoir. This well type is supposed to convert undiscovered hydrocarbon resources, including possible, conceptual and speculative resources into reserves.

9.1.4 Structure Well

A well (usually shallow) drilled to obtain structural information.

9.1.5 Extension Well

A well drilled to delineate a possible extension of hydrocarbon pool in an area where seismic data is inadequate to define the structural and/or reservoir continuity across faults. This well type has a higher risk than

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
13 OF 36

delineation wells and is supposed to convert possible hydrocarbon resources to proved reserves.

9.1.6 Prospect Assessment Well

A well drilled to evaluate reservoir productivity or the potential for productivity enhancement in a tight hydrocarbon reservoir that doesn't meet the criteria for booking reserves, or to target better reservoir as indicated by 3-D seismic, or targets undamaged reservoir, or test the potential for reservoir stimulation.

9.2 Exploratory Wells Accounting

Exploratory Wells when commercially productive are accorded the same accounting treatment as development wells.

9.3 Authorization to Open Well Account

Well Accounts (WBS Elements) are created and released (opened) by the Exploration Organization. Upon receipt of "Site Location and Preparation Letters" or "Approval to Drill" letter containing the approval of the Senior VP-Exploration and Producing or as delegated, Exploration Organization authorizes D&BI-19U /P&FAAD to create and open (unblock) the required phases.

9.4 Authorization to Change Wells Drilled Under BI-60 to BI-33

Vice President or the Executive Director of Exploration is authorized to approve the request to open exploratory well accounts to change wells drilled from BI-60 to BI-33.

10. WELL COSTS - OVERHEAD AND DIRECT COSTS**10.1 General Drilling Overhead**

Effective January 1, 2007, all "directly attributable costs" associated with placing an asset in service must be capitalized in compliance with the International Financial Reporting Standards (IFRS). The company defined these costs by cost elements in the 1D_WO cost element group for overhead costs of D&WO (cost center group 7981621) and allocated these costs to all wells drilled based on the percentage of days drilled on the particular well. See also accounting flow chart in section 21.

10.1.1 Cost Identification

Identified cost center accounts under cost center group 7981621 (cost

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
14 OF 36

centers 749xxx, 751xxx, 759xxx, 760xxx, 761xxx, 763xxx, 764xxx, 766xxx, 799xxx, 810xxx, 820xxx, and others) are allocated as general drilling overhead. Some of these cost centers, however, are rig (owned and leased) cost centers that are already allocated some of their costs through the rig allocation process as discussed in Sections 10.2 and 10.3. The remaining overhead costs of the rig cost centers and the cost of the other cost centers under the cost center group 7981621 that meet the "directly attributable cost" criteria are allocated to the wells as general drilling overhead through cost element 8044025. Costs not "directly attributable costs" are expensed and distributed to VBU cost centers through SAP assessment cycle E0109S as discussed in section 5.3.

10.1.2 Applied Overhead

General Drilling Overhead is allocated to well accounts based on rig days using assessment cycle WGD000. This overhead assessment is intended to pass the directly attributable costs in the cost centers (10.1.1 above) to all well accounts open during the year based on the rig days used for each well. At year end, the General Drilling Overhead cost per rig day will be the same for each well. All well accounts open during the year must continue to have phases 074, 098, 099, and 998 open throughout the year. Status "REL" (Released) may be used on well accounts that have received all invoice and material charges but must remain open to receive allocated overhead.

10.1.3 Rig Day

A rig day is a 24 hour period during which the drilling rig is attended by the operating or moving crew for the benefit of drilling or workover projects. Total rig days applicable to a well project will include rigging down after release of the rig from the prior well, moving the rig to the new well site, rigging up, and operating days required to accomplish the drilling or workover job. Rig days are confirmed by the DTD/D&WO and then included in the Drilling Letter. Rig days are entered as a Statistical Key Figure through transaction KB31N. Rig days are updated at the end of each month before month end close by D&BI-19U. If a rig has idle time during the month, those days are not entered as SKFs by D&BI-19U.

10.2 Saudi Aramco Rig Overhead Cost Allocation**10.2.1 Costs**

Costs of Saudi Aramco owned mobile rigs include labor, power generation, supplies, depreciation, and full cost allocations. All these costs are charged to individual rig cost centers.

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved

216.608ISSUE DATE
10-25-08REPLACES
10-07-03APPROVAL
RAKPAGE NO.
15 OF 36**10.2.2 Allocation Process**

At month-end, some costs of the rig cost center's cost elements (e.g. NDE cost elements, allocated employee benefits, support services except for material overhead, industrial relations, etc) are allocated to the well accounts based on the well's prorata share of rig days during the month as defined in the SAP assessment cycle WRG000. The costs are reallocated on cost element 8044020 SAO Rig Operation. See also accounting flow chart in section 21.

10.2.3 Depreciation

Asset class 30681-00 depreciation is charged as a secondary cost element (7409818) to the rig account (cost center) through assessment cycle WDP 000. The depreciation is then reallocated to the well accounts on cost element 8044010.

10.3 Contractor (Leased) Rig Overhead Cost Allocation**10.3.1 Costs**

Costs of leased rigs include invoiced day work rates, labor, and other incidental expenses. All costs other than lease costs (10.3.3) and rig mobilization (10.3.4.) are reallocated to well accounts on cost element 8044015.

10.3.2 Allocation Process

The allocation process for the costs of lease rig cost centers is the same as Saudi Aramco owned rigs i.e. running SAP assessment cycle WRG000. Under this cycle, segments are assigned individually for leased rigs and owned rigs. See also accounting flow chart in section 21.

10.3.3 Accruals

SAP Logistics (Materials Management) functionality includes among others accrual of expenses for the services already performed by the vendors/contractors through the creation of service entry sheets by the proponent with reference to the purchase order. The liability accrual is debited directly to the WBS using 7401013, Contract Rig lease, or 7401052, Other Contract Rig Lease, and credited the Goods Receipts (GR)/Invoice Receipts (IR) – services account 3800002.

Monthly accrual (manual) is also requested by D&WO to OAD for invoices not yet received & no service entry sheets are created but services are

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
16 OF 36

already performed. The accrual is charged directly to the WBS accounts using cost elements 7401013/7401052 or appropriate expense account and credited GL account 3003083, Accrued Liability-Sundry.

The above processes ensure that well accounts receive a fair share of costs in the same month the wells are drilled.

10.3.4 Rig Mobilization/Demobilization Allocation

Mobilization and demobilization costs are charged initially to GL Account 2800019 "Contract Rig Mobilization Fees Clearance". The details of rig mobilization fees of contract rigs must be provided by CAD to D&BI-19U in a timely manner to ensure that clearance is done in the same period. D&BI-19U clears the account by creating an asset record in SAP Asset Management using transaction AS01, with asset class "Rig Mob", for mobilization fee of each rig. Below is the journal entry to record the asset record and clear GL account 2800019:

Debit 2800015, Contract Rig Mobilization Fees
Credit 2800019, Contract Rig Mobilization Fees Clearance

D&BI-19U monitors the period end balance of account 2800019 to ensure that Contract Rig Mobilization Fees are cleared appropriately.

The Contract Rig Mobilization Fees are amortized during the regular monthly depreciation run. The amortization starts at the commencement of rig operation over the term of the contract and booked to the rig expense account 7409319. Rig amortization expense account 7409319 is reallocated monthly to the benefiting wells using cost element 8044005. At the expiration of the rig contract, or upon termination of the lease, D&BI-19U must ensure that the costs pertaining to that rig is zero.

In case of early cancellation of the lease agreement, the remaining balance of the fee for that rig is charged to WOD, KMDD, SAODD, NAODD, GDD&WOD, GE&DDD or ODD cost center through a rig account. This is done by using transaction ABAVN (Asset Retirement by Scrapping) in the Asset Management through the following entry:

Debit - 7409319, Rig Mobilization Cost
Credit - 2800015, Contract Rig Mobilization Fee

Rig Mobilization/Demobilization is a prepaid expense and not a capital asset. Therefore it should not be considered a fixed asset for reporting purposes. A SA-630 form is not required to write off the expense of terminated leases.

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
17 OF 36**11. OFFSHORE WELLS****11.1 Workovers (NDE)**

Workovers on offshore platforms are Type Prefix 59 or 64. Refer to Section 5.

11.2 Accounting for Tangible and Intangible Costs

In shallow Arabian Gulf waters drilling is usually performed with special floating/jack-up rigs. Offshore platforms are not usually installed until a well is producing. Unless platform costs are clearly associated with site preparation or drilling activities, the cost should be accounted for in the same way as any other normal project. Intangible costs are a classification of drilling costs, not producing. Once a well is producing oil, no further cost should be classified as either tangible or intangible.

When incurred, drilling cost and site preparation charges are classified into tangible and intangible portions. The tangible costs are cleared through phase 999 and retained in the incomplete well plant account 2045004 pending the report of project completion. Once the project is completed, the incomplete wells account is cleared either to Development Wells (Crude), 2000102, or Wells-Oil Gas & Injection, 2002102. The intangible portion is cleared through phase 998 and charged to IDC, Account 2008002 or 2008042. Tangible costs are direct material costs which become part of the completed well or platform. Tangible material costs in Type Prefix 10 accounts will be charged to Item (phase) 200. All other costs are intangible.

Costs related to flowlines, hookups, topside work and platform modifications, or are otherwise related to production are normal Type Prefix 10 charges and do not have intangible components.

12. CLOSING OF CRUDE OIL/WATER SUPPLY WELL ACCOUNTS AND CAPITALIZATION**12.1 Timing****12.1.1 Initial Capitalization**

Within six months of rig release date, P&ASG/D&WO must provide D&BI-19U with the list of materials and D&BI-19U must capitalize the tangible assets within the same period. Generally the costs of the three capital assets are the X-mas Tree, Well Head, and Well Pipe. If the well has been suspended and no X-mas Tree is installed, the well will be capitalized without the X-mas Tree. If the suspended well is activated, the X-mas tree will be capitalized separately with a different service date. A list of material

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
18 OF 36

is not needed for Type Prefix 62 & 63 accounts. Type Prefix 62 wells are capitalized as one asset record, while type prefix 63 as IDC. Well accounts should not be given the status "CLSD"(closed) if there are any open items (i.e. PO's, invoices, etc) or if rig days for that well have been entered into transaction KS31N during the year.

12.1.2 Final Capitalization

If additional costs have been incurred to the well account after the initial capitalization, a second list of material should be received from P&ASG and the well assets adjusted in value.

12.1.3 Closing of the well account

After nine months of rig release, the WBS element phases must be given the status (TECO) Technically Complete. After twelve months the well account status should be set to (CLSD). It is EAF&CG of P&TS responsibility to run SAP Transaction ZP0230 before a well is scheduled for closing to make sure that there are no open items that will hold up the closing of the well account. Phase 074 may be set with status code REL and phase 998 with "REL" if the well has incurred rig days during the year.

12.2 Documents

Using the list of materials provided by P&ASG/D&WO, D&BI-19U/P&FAAD prepares the following accounting document:

- Form SA-9032-1, Create Asset Master Data

A list of materials is not needed for Type Prefix 62 & 63 accounts.

12.3 Entry into Asset Accounting (Asset Management)

The Create Asset Master Data Form SA-9032-1 is used to support the settlement of tangible costs (Transaction CJ88) from the Asset Under Construction (AUC) account to the individual asset. The following entries are generated for tangible costs:

- Debit - 2000102 Development Wells (Crude)
- Asset Class 30102-01, Development .Wells (crude), i.e. Type Prefix 66, 71 to 75.
 - Asset Class 30102-02, Development Wells – Abu Safah
 - Asset Class 30102-03, Development Wells – Abqaiq Pressure Maintenance
- Debit - 2002102 Wells-Oil Gas& Injection
- Asset Class 32102-00, Development.Wells (gas), i.e. Type Prefix 66, 71-75.
- Debit - 2000105 Pressure Maintenance (Crude)
- Asset Class 30105-00, Pressure Maintenance Wells, i.e. Type Prefix 62

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
19 OF 36

- Asset Class 30105-01, Pressure Maintenance - Abqaiq Credit - 2045004,
Incomplete Well Plant

12.4 Intangible Drilling Costs

Intangible Drilling Costs in Type Prefix 66, 71, 72, 73, 74 and 75 accounts are non-material costs. The table ZPWELL_STRUCTURE (updated via transaction SM30) is used to designate the Type Prefixes and phases that have tangible, intangible, or NDE costs. The cost element group 1_S_TAN (updated via transaction KAH2) is used to designate those cost elements which are tangible. The cost elements belonging to this group are mostly materials cost elements. This logic is automatically programmed into the automatic well account creation ZP0072 which creates all phases and settlement rules depending on the Type Prefix.

Costs in the well accounts which are Intangible Development Costs are cleared through phase 998, and all tangible costs are cleared through phase 999. A settlement rule is written into phase 998 that transfers 100% of the phase costs into a predefined intangible asset record which is set to begin amortization from January 1st to the current month when the cost is received.

12.5 Intangible Costs Allocation

Intangible costs are amortized over a fifteen year period:

12.5.1 First Year Amortization

A full one year amortization or equivalent of 6.67% is booked in the year the IDC is incurred. IDC is accumulated in Accounts 2008002/ 2008042 and settled each month to an asset with a beginning depreciation date of January 1st of the current year. This process will cause a larger amount of monthly amortization later in the year than at the beginning as the costs accumulate in the later months. The amortization of IDC is debited to IDC Amortization, 7409852, and credited to Accumulated Amortization IDC (crude), 2058009, or Accumulated Amortization IDC (Gas), 2058049, whichever is appropriate.

12.5.2 Subsequent Year IDC Amortization

Subsequent years' amortization is equally spread monthly by an automatic fifteen-year life for those assets created in 12.5.1 (above).

12.6 Late Charges/Credits

Late costs must be charged to the well account in which the charge (Purchase Order, Goods receipt) was incurred. If the invoice is less than ten thousand dollars

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
20 OF 36

(\$10,000) and not associated with an open item in another well, the invoice may be charged to another open well. D&BI-19U/P&FAAD has the authority to reopen (and subsequently close) well accounts that have been previously closed.

To avoid late charges/credits, concerned parties are requested to expedite the invoice billings affecting a specific well before that well account is closed.

12.7 Other Charges/Credits

These include payment of custom duties, standby equipment/consultant charges or recovery of volume discount, and must be cleared to a well account or allocated among well accounts in a reasonable and justifiable way.

13. CLOSING OF GAS WELLS

Although the process of closing gas wells is identical to that described in Section 12 (above), gas wells (when capitalized) are accounted for separately. The gas accounts and the corresponding oil accounts are as follows:

<u>Gas</u>	<u>Crude</u>	<u>Description</u>
2002102	2000102/2000105	Capitalized tangible cost
2008042	2008002	IDC
2058049	2058009	IDC Amortized
7409852	7409852	Amortization of IDC
2057002	2056002/2056005	Accumulated Depreciation - Tangible
7409818	7409818	Depreciation of tangible well cost

14. WELL ABANDONMENT COSTS**14.1 Authorization**

Wells are accounted for as totally or partially abandoned upon receipt of an Abandonment Distribution Letter signed by the Senior Vice President, Exploration and Producing or by the Vice President–Drilling & Workover for BI-60 wells, and the Vice President–Exploration for BI-33 wells.

14.2 Accounting

14.2.1 After nine months of rig release, the WBS element phases must be given the status TECO as Technically Complete. After twelve months the well account status should be set to CLSD. However, the prime account and clearance phases 998 & 999 will only be closed upon receiving of confirmation of well abandonment from DTD. DTD will also provide Completion Report to D&BI-19U/P&FAAD after rig release.

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
21 OF 36

14.2.2 Refer to AI 210 "Well Abandonment" for complete discussion of accounting treatment.

15. INTANGIBLE PROPERTIES

The term "Intangible Properties" refers to the cost of acquiring drilling sites, not the costs involved in drilling and oil well development discussed above. Intangible Properties are amortized over fifteen years.

15.1 Accumulation of Costs

Intangible property costs are initially accumulated in Type Prefix 10 job orders (WBS).

15.2 Year-End Entries

The job orders (WBS) in 15.1 are settled to a separate IDC account - Intangible Properties, Account 2008011. The beginning date for depreciation is January of the year of capitalization. The amortization uses the following accounts:

Debit - 7409852, "Amortization Intangible Properties"
Credit - 2058019, "Accumulated Amortization – Intangible Properties"

16. RESPONSIBILITIES**16.1 The D&BI-19U/P&FAAD**

16.1.1 Creating, unblocking, and closing the WBS Elements well account phases in the Financial Master when authorized.

16.1.2 Entering Statistical Key Figure (SKF) on a monthly basis to account for rig days.

16.1.3 Reviewing SAP report ZK0069 and Drilling Rig Control Report to ensure that SKFs were properly entered into SAP.

16.1.4 Reconciling the drilling and workovers fixed assets sub ledgers against its corresponding General Ledger fixed assets accounts including its amortization, depreciation, and dry hole and abandoned well expense booked in cost centers 663500(Oil) and 663510(Gas).

16.1.5 Initiating the financial write-off of IDC and coordinating the write-off of capitalized tangible expenditures on abandoned wells, including related items such as flowlines, fencing, platforms, and cathodic protection. Preparing SA630 forms as required.

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved

216.608ISSUE DATE
10-25-08REPLACES
10-07-03APPROVAL
RAKPAGE NO.
22 OF 36**16.2 AP&SD**

16.2.1 Adding new rig accounts. This process includes the following steps:

- a. Operation's manager of D&WO requests AP&SD to open a new rig cost center.
- b. The rig cost center is created in accordance with master data policy and procedures.
- c. A SKF is created for each rig.
- d. The SKF is linked to the cost center in a special table.
- e. A new segment is added in the drilling assessment cycle (WRG000)

16.3 P&ASG of D&WO

16.3.1 Reviewing the tangible drilling materials per Completion Report against the Materials Cost Report for material quantity variances and preparing the necessary reclassification entries for Type Prefix's 62, 66, 71, 72, 73, 74 and 75 only (workovers NDE and Type Prefix 63 are not reclassified).

16.3.2 Preparing and submitting the summarized cost of tangible materials within 180 days from Rig release date to D&BI-19U/P&FAAD as required.

16.3.3 Computing the costs of tangible materials to be disposed in connection with a partial abandonment after receipt of a partial abandonment letter.

16.3.4 Maintaining the necessary files for the well analysis.

16.3.5 Reviewing the transactions in D&WO Cost Centers 799-XXX and advising AP&SD and D&BI-19U/P&FAAD of any incorrect charges.

16.5 CAD/P&TS/D&WO

16.5.1 Verify Service Entry Sheet charges to the well accounts.

16.5.2 Assigning account numbers for all drilling charges.

16.5.3 Reviewing the invoice cost reports.

16.5.4 Coordinating any corrections to the well accounts with D&BI-19U/P&FAAD.

16.5.5 Coordinating the booking of late charges/credits to the well accounts or substitute accounts with D&BI-19U/P&FAAD.

16.5.6 Preparing and submitting the month-end accrual for services received prior

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
23 OF 36

to month-end, but for which no invoice (manually processed invoices) has yet been charged to the well account to PAD. This includes charges for the current month as well as prior months not yet charged to the well account.

- 16.5.7 Providing D&BI-19U with details of rig mobilization fees of contract rigs in a timely manner to facilitate clearance of account 2800019.

16.6 DTD/D&WO

- 16.6.1 Reviewing transactions in the Development Well Accounts (BI 60-XXXXX) and advising D&BI-19U/P&FAAD of any changes necessary.
- 16.6.2 Reviewing the transactions in D&WO Cost Centers 764xxx and advising AP&SD and D&BI-19U/P&FAAD of any incorrect charges.
- 16.6.3 Notifying D&B-19U/P&FAAD, in writing, of the development and workover wells scheduled to be drilled and/or worked over (scheduled 90 days in advance.)
- 16.6.4 Providing D&BI-19U/P&FAAD, monthly, with a "Drilling Letter" containing the distribution of rig days to well accounts. Rig days shall start from 0500 hour on the first day of each month and end at 0459 hours of the first day of the next month.
- 16.6.5 Reviewing IDC expense for reasonableness prior to well account closure. D&WO should run Transaction ZP00230 prior to well account closure as a first line of detection for open items.

16.7 DRLG

Each organization reporting to the General Manager is responsible for the following:

- 16.7.1 Reviewing the transactions in their department 751xxx, 759xxx, 760xxx, 761xxx, 766xxx, 810xxx, and 820xxx cost centers.
- 16.7.2 Providing a Completion Report to P&ASG and D&BI-19U/P&FAAD within 150 days after rig release. Abandoned wells will be indicated by type of completion as PLUGGED & ABANDONED.
- 16.7.3 Supplying D&BI-19U/P&FAAD with confirmation letter and abandonment approvals for wells abandoned and forwarding a copy to P&ASG/P&TS/D&WO.

16.8 EP&SS

- 16.8.1 Expenditures against the Capital and Operating Budgets and for advising D&BI 19U/P&FAAD of any incorrect charges to the wells.

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
24 OF 36

16.8.2 In addition, the Exploration Planning and Support staff is responsible for the review of transactions in the Development Well Accounts Type Prefixes 10 and 66 related to Seismic activity, and to advise D&BI-19U/P&FAAD of any changes necessary.

16.9 PAD

16.9.1 Booking of Contractors' Invoices and accruals to Drilling and Workover Accounts (Well Costs).

16.10 WOD/D&WO

16.10.1 Reviewing material transactions in Type Prefixes 59, 61, 64, and 65 and advising D&BI-19U/P&FAAD of any necessary changes.

16.11.2 Monitoring current month transactions on all workover accounts and advises D&BI-19U/P&FAAD of incorrect charges.

16.11.3 Reviewing the transactions in Drilling & Workover Cost Center 749-XXX and advising D&BI-19U/P&FAAD of any changes to cost center structure/groupings.

16.11.4 Providing a Completion Report to P&ASG and D&BI-19U/P&FAAD within 150 days after rig release. Abandoned wells will be indicated by type of completion as PLUGGED & ABANDONED.

16.11.5 Supplying D&BI-19U/P&FAAD with confirmation letter and abandonment approvals for wells abandoned and forwarding a copy to P&ASG/D&WO.

17. REPORTS

For cost accumulation, control, and informational purposes, the following reports are prepared:

17.1 AR-172

This is an annual report prepared by D&BI-19U/P&FAAD which presents an analysis of development, exploration, and well workover costs; reflects allocation of costs by wells to development, exploration, producing and pressure maintenance expense; and incomplete wells plant and closings to plant or workover expense.

This is supported with the SAP generated report which contains following information:

- "Intangible Development Cost (Type Prefixes 63, 66, 71, 72, 73, 74 & 75)"
- "Producing and Pressure Maintenance Expense (Type Prefixes 59, 61, 64 &

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
25 OF 36

65)"

- "Incomplete Wells Plant (Type Prefixes 62, 66 & 75)"

AR-172 reflects opening/closing balances so that various totals can be reconciled to 2045004 "Incomplete Wells Plant"

17.2 AR-173

This is a monthly report prepared by D&BI-19U/P&FAAD which lists IDC written off as abandonment and dry hole charges on wells abandoned as of the report date. The report serves as detailed backup for the following financial accounts:

Cost centers 663500(Oil)/663510(Gas), "Dry Hole & Abandonment Well Expense"

17.3 AR-187

This is a monthly report, prepared by D&BI-19U/P&FAAD, which examines expenditures and costs incurred on the Company's exploration, development and workover programs. In the case of exploration and development costs the report will reflect the corresponding variance from the approved annual appropriation. The report is supported by the well details containing the following information:

- Well Location
- Well Number
- Current Month Charges - Tangible & Intangible
- Year - To - Date Charges - Total Tangible & Intangible
- Total - To - Date Charges

17.4 "Drilling Rig Control" Report – ZK0069

A SAP generated report showing the Rig Drilling days of the benefiting wells, which is used as statistical key figures to allocate costs to the wells. P&FAAD generates this report after receiving the monthly drilling letter and posts the data in SAP to ensure proper posting and accuracy.

17.5 Other Computer Generated Reports

- ACAA-XX - Cost Reports, Recap by entry within Well Number and Recap by entry within Type Code.
- AGLI9-XX - Sub-ledger Recap including Voucher Number and Type Code Number.
- AFC4-XX - Monthly List of Financial Master.
- AFC4-03 - Monthly List of WBS Elements.
- AFTF-XX - Capital Invoice Cost Report (Supports AGLI9-XX).
- AVC5-03 - Tangible/Intangible Cost Recaps (Development/Exploratory).

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

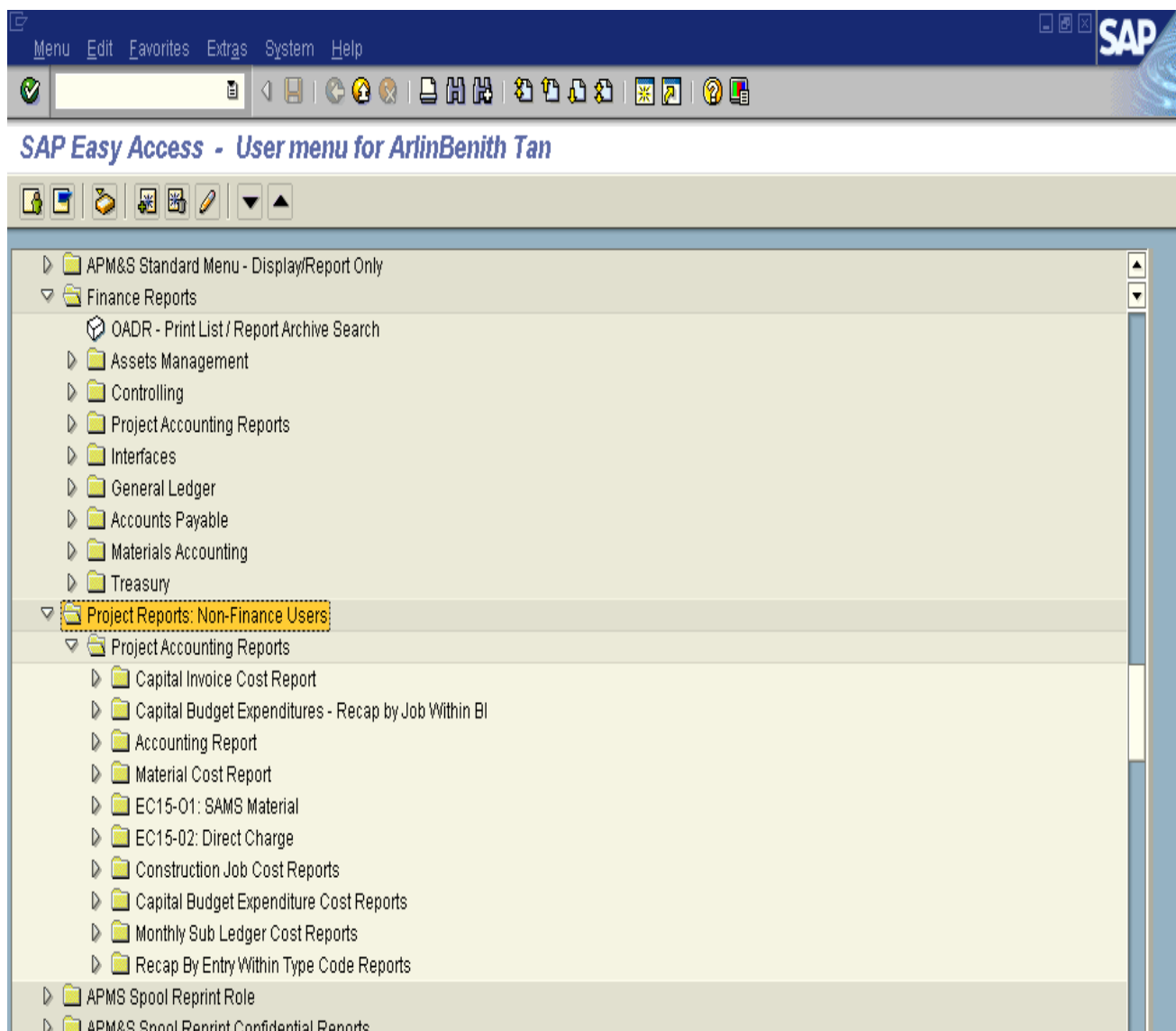
WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved
216.608ISSUE DATE
10-25-08REPLACES
10-07-03APPROVAL
RAKPAGE NO.
26 OF 36

- ZF0065 - Asset Sub-ledger Report.
- MVX14-01 - Stock Article Activity Balances and Prices.
- ZK0009 - Material Cost Report.
- ZK0060 - Fiscal Year Rigs to Well Costs Report.

Project reports for finance and non-finance users including the above mentioned reports are available in the SAP Easy Access User Menu as shown in the screen shot below:

**18. SUMMARY OF WELL ACCOUNTS**

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
27 OF 36

Type Prefix	SAP Well Type**	Description	Cost Center	Trial Balance
58	WA 1	Construction	Proponent cost centers if expensed	Distributed to Type Prefix 10 then booked to incomplete construction account 2045001 then to project's capital asset account upon completion, & Other Expense accounts
59	WA 2	Workover (NDE)	761-920	Distributed to Producing Expense (POX) (7971102), POX Abu Sa'fah (7971103), Master Gas System (MGS) – Khuff Gas Wells (7976080).
61	WA 3	Workover (NDE)	760-910	Distributed to Producing Expense (POX) (7971102), POX Abu Sa'fah (7971103), Master Gas System (MGS) – Khuff Gas Wells (7976080).
62	WA 4	Water Supply *	Capitalized – all tangible	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion
63	WA 5	Water Supply	Capitalized – all intangible	Intangible – Crude (2008002) Gas (2008042)
64	WA 6	Workover (NDE)	761-930	Distributed to Producing Expense (POX) (7971102), POX Abu Sa'fah (7971103), Master Gas System (MGS) – Khuff Gas Wells (7976080).
65	WA 7	Workover (NDE)	760-900	Distributed to Producing Expense (POX) (7971102), POX Abu Sa'fah (7971103), Master Gas System (MGS) – Khuff Gas Wells (7976080).
66	WA 8	Development	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)
71	WA 8	Development Workover	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)
72	WA 8	Development Workover	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)
73	WA 8	Development Workover	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)
74	WA 8	Development Workover	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)
75	WA 9	Exploratory	Capitalized – tangible and intangible ***	Tangible incomplete well account (2045004) then to well asset account –Gas (2002102) Crude (2000102/2000105) upon completion. Intangible – Crude (2008002) Gas (2008042)

* Water Supply for water injection.

** Tangible/intangible settlement rules for phases are pre-programmed via the automatic well creation routine ZP0072 and ZPWELL_STRUCTURE (section 3.3) table using SAP well type as the reference.

*** Direct Materials (cost elements 7205001, 7205010 and 7205011) charged to phases 053, 054, 056, 057, and 075 are defined as tangible costs. All other cost elements charged to these phases and the total costs of all other phases are defined as intangible costs.

19. DRILLING AREA LOCATION CODES

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
28 OF 36

FIELD	LOCATION	ABBREVIATION	FIELD	LOCATION	ABBREVIATION
001	FARHAH	FRHH	041	UMM JURF	UMJF
002	FARIDAH	FRDH	042	WARIYAH	WRIH
003	SAMIN	SMIN	043	HISAN	HISN
004	BURMAH	BRMH	044	RAGHIB	RGHB
005	LUGHFAH	LAFH	045	HAMAL	HAML
006	MAGHRIB	MGRB	046	USAYLAH	USYL
007	HAMUR (OFFSH.)	HMUR	047	DUHAYNAH	DHYN
008	SAHBA	SAHB	048	DHIB	DHIB
009	WATBAN	WTBN	049	JAWB	JAWB
010	DHAHRAN	DHRN	050	ABQAIQ	ABQQ
011	DAMMAM	DMMM	051	KHURAI	KHRS
012	QATIF	QTIF	052	SUHUL	SUHL
013	SAFANIYA (OFFSH.)	SFNY	053	HAWIYAH	HWYH
014	ABU HADRIYA	ABHD	054	SHEDGUM	SDGM
015	KHURSANIYAH	KRSN	055	FAZLAN	FZRN
016	MANIFA(OFFSH.)	MNIF	056	AINDAR	ANDR
017	SAFANIYA (ONSH.)	SFNY	057	UTHMANIYAH	UTMN
018	FADHILI	FDHL	058	HARADH	HRDH
019	ABU SA'FAH (OFFSH.)	ABSF	059	DILAM	DILM
020	LAYLA	LAYL	060	ABU-RAKIZ	ABRZ
021	EL HABA	HABA	061	JALAMID	JLMD
022	ABU MARKAH	ABMK	062	ZULUF (OFFSH.)	ZULF
023	HASBAH (OFFSH.)	HSBH	063	KHARMA	KHRM
024	BERRI (OFFSH.)	BRR1	064	JAHAM	JAHM
025	BERRI (ONSH.)	BRR1	065	HAWTAH	HWTH
026	MANIFA (ONSH.)	MNIF	066	KIDAN (OFFSH)	KIDN
027	LAWHAH (OFFSH.)	LWHH	067	KARAN (OFFSH)	KARN
028	DIBDIBAH	DBDB	068	NUAYYIM	NYYM
029	RIBYAN (OFFSH.)	RBYN	069	EL JAUF	JAUF
030	RAS TANURA	RSTR	070	UHAYRISH	UYRS
031	SUB AN	SUBN	071	JURAYBI'AT	JRBT
032	SHARAR	SHRR	072	SHAYBAH	SHYB
033	SADAWI	SDWI	073	MARJAN (OFFSH)	MRJN
034	JALADI	JLDI	074	JANA	JANA
035	MANJURAH	MNJR	075	GHAZAL	GHZL
036	HAB ARI	HBRI	076	HAZMIYAH	HZMY
037	RAWAKIB	RWKB	077	RAMLAH	RMLH
038	QATIF (OFFSH.)	QTIF	078	UTHMANIYAH (1000+)	UTMN*
039	HARURI	HRUR	079	ZUMUL	ZUML
040	NIBAN	NIBN	080	UTHMANIYAH (2000+)	UTMN*

*Effective January 1, 2006, these are no longer used; instead, one field code (057) is used for all Uthmaniyah wells.

FIELD	LOCATION	ABBREVIATION	FIELD	LOCATION	ABBREVIATION
081	HILWAH	HLWL	501	YABRIN	YBRN

* CHANGE

** ADDITION

NEW INSTRUCTION ☐COMPLETE REVISION ☐

GENERAL INSTRUCTION MANUALISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved

216.608ISSUE DATE
10-25-08REPLACES
10-07-03APPROVAL
RAKPAGE NO.
29 OF 36

082	GHINAH	GHNH	502	MADARAH	MADR
083	MIDYAN	MDYN	503	USHAYRN	USRN
084	WAQAR	WAQR	504	RIMAN	RIMN
085	HARMALIYAH	HRML	505	S-1168	1168
086	MAZALIJ	MZLJ	506	RUBAYDA	RBDA
087	ABU JIFAN	ABJF	507	NIMRAN	NMRN
088	NASLAH	NSLH	508	AWTAD	AWTD
089	HIBAK	HIBK	509	SAMNAH	SMNH
090	A'MAD	AMAD	510	UMM BARQA	UMBR
091	QIRDI	QIRD	511	SHILAH	SHLH
092	MA'AQALA	MAQL	512	MISHRIFAH	MSHR
093	MAHARAH (OFFSH).	MHRN	513	ABU SIDR	ABSR
094	WUDAYHI	WDYH	514	MIDRIKAH	MDRK
095	RIMTHAN	RMTN	515	TIMAN	TIMN
096	TINAT	TINT	516	DUAYBAN	DYBN
097	BAKR	BAKR	517	UMM RAMIL	UMRM
098	KURAYN (OFFSH.)	KRYN	518	RAYHAN	RYHN
099	MISCELLANEOUS	MISC	519	MURAYKIZ	MRKZ
101	NUGAYR	NGYR	520	HALFA	HLFA
102	KAHF	KAHF	521	SHADEN	SHDN
103	FARWAN	FRWN	522	MURAIQIB	MROB
104	SHURFAH	SRFH	523	MAWAN	MAWN
105	QURAYYAH (OFFSH)	QRYH	524	NIYASHIN	NYSN
106	JUFAYN	JFYN	525	ZAYNAH	ZYNH
107	ABU SHIDAD	ABSD	526	SAMHAH	SMHA
			527	JURAYD (OFFSH)	JRYD
			528	ZIMLAH	ZMLH
			529	JANA (OFFSH)	JANA
			530	KASSAB (OFFSH)	KSAB
			531	DIRWAZAH	DWZN
			532	TUFAYH	TFYH
			533	MAHAYER	MHYA
			534	BAYYNAH	BAYN
			535	NUJAYMAN	NJYN
			536	ABU MARKHAH	ABMK
			537	UMM HUWAYD (OFFSH)	UMHD
			538	MABRUK	MBRK
			539	MURRADAF	MRDF
			540	MUNHAZ	MNHZ
			541	HAZEM	HZEM
			542	ABU SEYAL	ABSL
			543	ARABIYAH (OFFSH)	ARBI
			544	FURAYSAH	FRYH
			545	LIDAM	LIDM
			546	UMM SUDAYRAH	UMSA
			547	MANAHEEL	MNHL
			548	ABU TARFA	ABTF

20. WORK BREAKDOWN STRUCTURE PHASES**PHASES****TITLE AND DEFINITION**

* CHANGE

** ADDITION

NEW INSTRUCTION ☐COMPLETE REVISION ☐

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
30 OF 36**010 CONTRACTOR RIG MOVE**

This includes cost of contractor's rig move including all associated cost from the time of rig release from previous well location till spud or commence operation at a new well location in accordance with terms & conditions of contract except the payable waiting time for mast up/down during darkness. It also includes the rig move at the end of contract from last well location to contractor's storage facilities if demobilization lump sum costs are not available in the contract.

011 CONTRACTOR CAMP MOVE

This includes cost of contractor's camp move including all associated cost of transporting and setting the camp from its previous location to the new location as instructed by the Saudi Aramco representative and in accordance with terms & conditions of contract. It also includes the camp move at the end of the contract from last well location to contractor's storage facilities if demobilization lump sum costs are not available in the contract.

014 CONTRACTOR RIG OPERATION - DAY WORK RATE

This includes cost of contractor rig operation day work rate other than specified under phase numbers 012, 013, & 015 in accordance with the terms & conditions of the contract.

016 CONTRACTOR CAMP – ARAMCO ACCOMMODATION

This includes cost of meals and accommodation provided by Contractor at the rig site for Saudi Aramco and authorized service company personnel.

018 SAUDI LABOR RATE CONTRACTOR INCENTIVE

This includes the cost paid to rig contractors as incentive to hire Saudi manpower, train them in different job categories in accordance with the terms and conditions of the contract.

040 ROADS & LOCATION

Preparation, maintenance, and clean up of the well site. Construction and maintenance of roads required specifically for the drilling and workover operations. Also includes surveying, grading the location, excavating sump, cellar work.

044 WATER WELL PUMP / PIPING

Installation and maintenance of water well pump, booster pump and water supply line.

045 CONTRACTOR PROVIDED TRANSPORTATION

This includes contractor provided transportation charges for potable water, mud, bentonite, barite, drill water, and fuels to and from loading facility and the work site "Terminal Facilities" in the case of offshore operations.

046 OFFSHORE TRANSPORTATION AND SERVICES

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
31 OF 36

This includes charges of workboats, marine transportation, divers, and Remotely Operated Vehicle (ROV's) except work done specifically for location preparation under phase # 040.

047 ONSHORE TRANSPORTATION SERVICES

Transportation and handling to and from the rig or the pier in the case of offshore operations, of drilling equipment such as fishing tools, drill pipe, drill collars, subs, tubing, casing, gasoline etc. where company transportation is involved. Excludes costs for hauling mud materials, acid, and cement when a service contractor is involved in the transporting of material and equipment where transportation is included as a part of their invoice.

048 CASING / TUBING RUNNING AND HANDLING

This includes cost associated with services of casing / tubing power tong and crews / stabbing spider, elevator / drill pipe spinner / power thread cleaning / joint analyzed makeup, dope application / casing fill and circulate tool services / pickup or lay-down services if provided by the services company.

049 DRILL BITS

This includes drilling bits, nozzles and accessories costs. Does not include coring bits and accessories cost.

050 CEMENTING/PUMPING SERVICES

This includes services cost of bulk cement transportation, casing cementing jobs, pressure testing, other pumping services and sand control services normally associated with cementing pump trucks or skids.

051 CEMENT, ADDITIVES & CHEMICALS

This includes cost of cement, cement additives, and chemicals required for well.

052 DRILLING FLUIDS MATERIALS & SERVICES

This includes cost of all materials used in drilling fluid system, including make up fluids such as brine, diesel or other oils and the cost of super sacks when charged. Also includes the mud engineering services.

053 WELL HEAD

This includes cost of permanent surface facilities and equipment; such as the landing base, spools, flanges and other charges in connection with the installation of such equipment. This item does not include the production tree. For financial accounting purposes, the direct material costs in this phase are considered as **tangible** well costs for SAP well type 8 & 9 (section 18, Summary of Well Accounts.)

054 CASING & Tubing

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
32 OF 36

This includes cost of casing, liner, liner hanger, and tubing. For financial accounting purposes, the direct material costs in this phase are considered as **tangible** well costs for SAP well type 8 & 9 (section 18, Summary of Well Accounts.)

056 TREE

This includes cost of the production tree and accessories installed to produce the well. For financial accounting purposes, the direct material costs in this phase are considered as **tangible** well costs for SAP well type 8 & 9 (section 18, Summary of Well Accounts.)

057 DOWN HOLE EQUIPMENT

This includes cost of DV collars, centralizers, line hangers, float equipment, packers, plugs, subs, profile nipples, Sub Surface Safety Valves (SSSV), sliding sleeves and multilateral equipment plus any other down hole (DH) equipment and accessories run with or without casing and production tubing which is not included in phase 075. Phase 057 is NOT to be used for down hole-monitors, smart well completion, equalizer screen, expandable screen, or gas lift equipment – these are to be charged to phase 075. For financial accounting purposes, the direct material costs in this phase are considered as **tangible** well costs for SAP well type 8 & 9 (section 18, Summary of Well Accounts.)

060 UBD EQUIPMENT & SERVICES

This includes under balance drilling (UBD) equipment and services, including well control, surface separation, fluids and solids handling. Also includes down hole pressure measurements, UBD specific safety systems, UBD related communications equipment, UBD well testing equipment and UBD crews.

061 PERFORATING

This includes the cost of Perforating equipment and services as well as logging and pressure control equipment associated with the perforating.

062 CORING EQUIPMENT & SERVICES

This includes cost of Coring equipment and services including onsite core specialist, core barrels, core head and core handling.

063 DRILLING EQUIPMENT RENTAL

This includes the rental charges for drilling jars, shock subs, drilling and workover strings, stabilizers, fishing tools, rotor jet and well bore cleanout system plus any other rented drilling equipment provided by services companies and not associated with another phase.

064 WELL TESTING EQUIPMENT & SERVICES

This includes cost of all tools and services used in the testing of a formation whether in the zone of completion or in another formation.

065 ACIDIZING

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
33 OF 36

Acid and associated pump truck charges including acid transportation and cost of additives and chemicals used for the acid job.

066 LOGGING / LWD

This includes equipment and services costs for wire line logging, pipe conveyed logging and logging while drilling (LWD).

067 OTHER STIMULATION SERVICES

This includes cost of nitrogen lifting equipment, materials and services plus all other stimulation services not associated with another phase.

068 OTHER COILED TUBING WORK

This includes services cost of Coil / Reel Tubing and other associated charges not included with another phase.

069 DIRECTIONAL DRILLING SERVICES

This includes cost of equipment and services charged by the Directional Drilling Company such as rotary steerable system, inclination at bit, mud motors, non-magnetic drill collars, survey instruments and associated tools, directional MWD tools, support crews and stabilizers if used for directional control. It also includes the performance drilling services.

070 FRACTURING SERVICES

This includes cost of Hydraulic fracturing materials, additives / chemicals, all pumping and other associated services.

071 EQUIPMENT LOST IN HOLE / DAMAGED BEYOND REPAIR

All cost associated with tools / equipment lost in the hole that belongs to the drilling contractor and / or services provider caused by Saudi Aramco. It also includes the cost of all damages repairable or beyond repair to contractor's equipment.

072 REAL TIME MONITORING SERVICES

This includes mud loggers, real-time monitoring services, safety and gas monitoring equipment and any other real time monitoring system not associated with another phase.

073 TECHNICAL SERVICES

This includes materials and contractor services which do not fall in the sub items mentioned above.

074 LEASED RIG OVERHEAD

Do not use this phase. For **Finance** use only.

075 SPECIAL EQUIPMENT-DOWNHOLE

GENERAL INSTRUCTION MANUAL**216.608**ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-25-08REPLACES
10-07-03

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

APPROVAL
RAKPAGE NO.
34 OF 36

This includes cost of down hole special equipment such as, but not limited to, Production Equalizer (PEQ), Permanent downhole Monitoring System (PDH), ESP, M-Pas Packers (MPP), Smart Well Completion with Choke (SCC), various type of Expandable (ESS, ESL, EXL, ECC, & EOC), Conventional Sand Screens (CSS), Single Lateral with Smart Completion (SLC), and In-Situ Gas Lift (IGL) plus any other down hole equipment or accessories procured as special equipment and run on or with the production tubing. For financial accounting purposes, the direct material costs in this phase are considered as **tangible** well costs for SAP well type 8 & 9 (section 18, Summary of Well Accounts.)

078 DEMOBILIZATION COSTS

All charges associated with final rig and camp demobilization as defined in the rig contract.

079 MOBILIZATION COSTS ONLY

All charges associated with the initial rig and camp mobilizations as defined in the rig contract.

089 DRILLING EQUIPMENT DEPRECIATION

Charges to this item represent the depreciation of Drilling Equipment applicable to the well. Depreciation will be allocated to wells. For **Finance** use only.

090 DEVELOPMENT SEISMIC ACTIVITY

This Includes charges associated with seismic activity by contractors.

091 GENERAL DRILLING OVERHEAD

This overhead assessment (Section 10.1 above) is intended to pass the directly attributable costs in the cost centers to all well accounts open during the year based on the rig days used for each well. For **Finance** use only.

092 SAO RIG OPERATION

Costs of Saudi Aramco owned mobile rigs allocated to the well accounts based on the well's prorata share of rig days during the month including allocated rig depreciation. (Section 10.2 above). For **Finance** use only.

998 INTANGIBLE CLEARANCE

Do not use this phase. For **Finance** use only.

999 TANGIBLE CLEARANCE

Do not use this phase. For **Finance** use only.

21. ACCOUNTING FLOW CHART

Workover Wells –
WBS Type Prefix
59,61,64,65.

Development Wells
WBS Type Prefix
66, 71, 72, 73, 74,
75 (exploratory)

Water Supply
Wells

Other (water) Wells – (non
D&WO) Construction type
WBS Type Prefix 58

* CHANGE

** ADDITION

NEW INSTRUCTION ☐COMPLETE REVISION ☐

GENERAL INSTRUCTION MANUALISSUING
ORG.

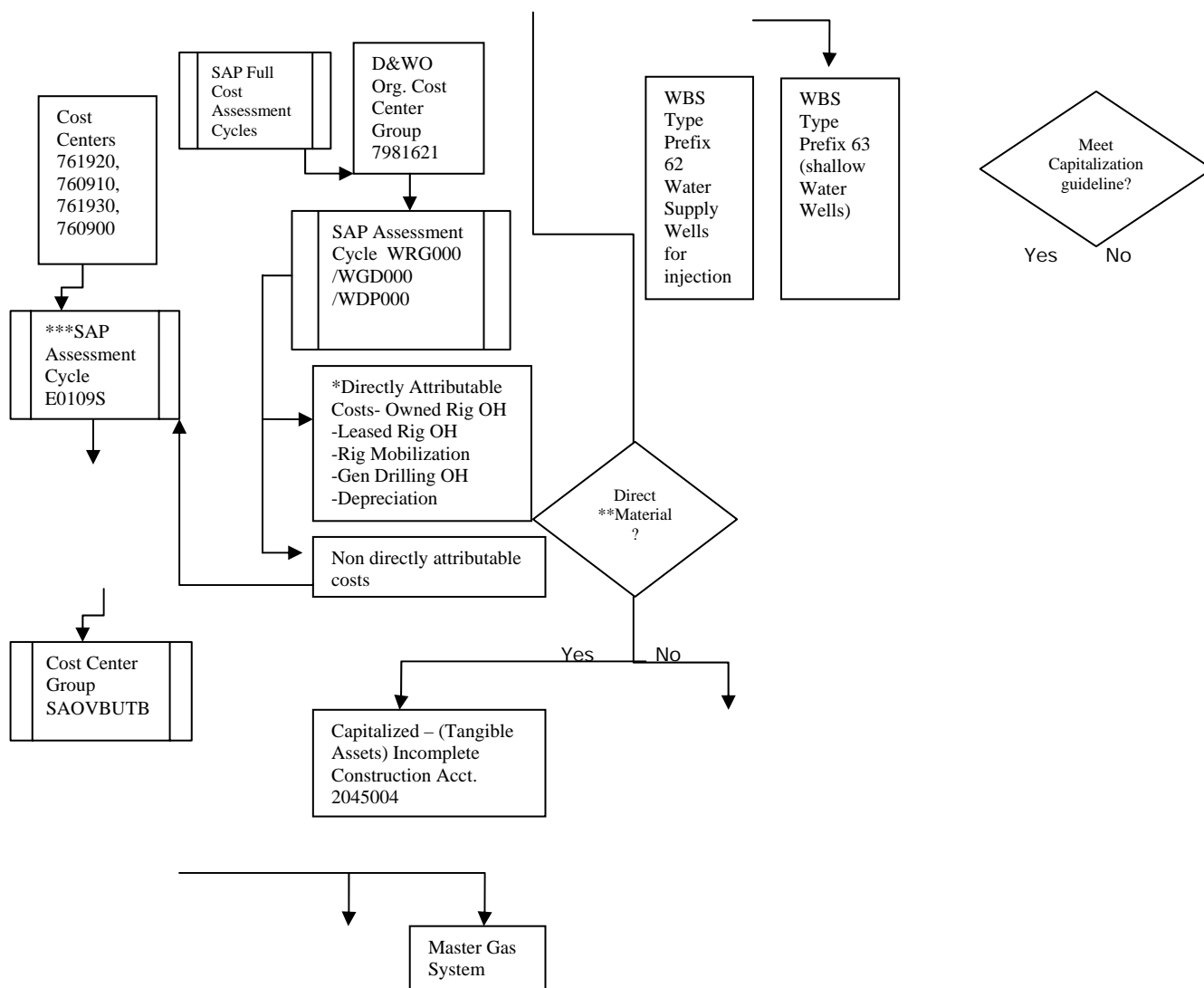
ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved

216.608ISSUE DATE
10-25-08REPLACES
10-07-03APPROVAL
RAKPAGE NO.
35 OF 36

*Allocated to wells based on the cycles respective SKF.

**Direct Materials charged to Phases 053, 054, 056, 057, and 075 are capitalized under tangible assets, all their other costs and costs of other phases are capitalized under intangible assets. These settlement rules are pre-programmed via the automatic well creation routine ZP0072 and table ZPWELL_STRUCTURE.

*** Allocated to VBU cost centers based on barrel of oil equivalent produced.

SAUDI ARABIAN OIL COMPANY (Saudi Aramco)

GENERAL INSTRUCTION MANUAL

ISSUING
ORG.

ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

SUBJECT

WELL ACCOUNTING & DEVELOPMENT COSTS

GI No.

Approved

216.608

ISSUE DATE
10-25-08

REPLACES
10-07-03

APPROVAL
RAK

PAGE NO.
36 OF 36

Approved: _____

R.A KRYGSMAN, Manager

Accounting Policies, & Systems
Department

ABT
T1336

* CHANGE

** ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐