

GENERAL INSTRUCTION MANUAL**202.330**

ISSUING ORG. ACCOUNTING POLICIES, & SYSTEMS DEPARTMENT

ISSUE DATE
12-20-2011REPLACES
01-22-2011

SUBJECT CAPITAL ASSETS - SERVICE LIVES AND DEPRECIATION

APPROVAL
IAMPAGE NO.
1 OF 10**CONTENT:**

This instruction discusses the calculations to depreciate the cost of Saudi Aramco capitalized tangible and certain intangible assets. The attachments contain tables of service lives for all capital assets except for drilling capital assets which are covered in GIs 202.331 (Item Rates 0086-0097) and 216.608 (Intangible Assets Item Rates 0005, 0007, 0008, 0009), Computer Software (Item Rate 0699) under GI 202.320, Exploration Cost (Item Rate 0700) under GI 216.815, Construction Over/Under Clearance (Item Rate 0004) under AI 212, and other specialized Item Rates 01XX-09XX established by P&FAAD. These tables are used by Finance for computing monthly depreciation charges to apportion the book cost of capital assets over estimated useful lives. The text includes:

1. Glossary
 2. Definitions
 3. Changes of Service Lives
 4. Depreciation Calculation
- Attachment (1) Table of Service Lives (Assets Capitalized starting November 1, 2000)
Attachment (2) Motor/Marine/Aircraft/Const. Equipment Table of Service

1. GLOSSARY:**1.1 ABBREVIATIONS**

AI	Accounting Instruction
DZIT	Department of Zakah and Income Tax
P&FAAD	Projects & Fixed Assets Accounting Division/OAD
IAS	International Accounting Standards
LPG	Liquified Petroleum Gas
Min Pet	Ministry of Petroleum and Mineral Resources
NGL	Natural Gas Liquified
OAD	Operations Accounting Department
SAP/AM	Systems, Applications & Products/Asset Management

1.2 ACCOUNTING & GENERAL INSTRUCTIONS

AI 212	Construction Overhead Cost
GI 202.320	Accounting for the Costs of Computer Software Developed or Obtained for Internal Use
GI 202.331	Drilling Equipment - Service Lives and Depreciation
GI 216.608	Well Accounting and Development Cost
GI 216.815	Exploration Cost

2. DEFINITIONS:**2.1 DEPRECIABLE CAPITAL ASSET**

Depreciable capital assets are any capitalized tangible plant and equipment assets.

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2.2 DEPRECIATION

Per IAS-16: "The depreciable amount of an asset shall be allocated on a systematic basis over its useful life". "The depreciable amount of an asset is determined after deducting its residual value".

2.3 SERVICE LIFE

As per IAS-16: "The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets". The service lives in this instruction were established by the Company's engineering and operating personnel based on normal retirement resulting from ordinarily expected causes such as exhaustion, wear and tear, or normal obsolescence. They do not contain any provision for abnormal retirement resulting from external causes such as radical economic changes, legislation, casualties, or other unpredictable factors which may force the retirement or disposition of a capital asset sooner than expected.

3. CHANGES OF SERVICE LIVES:

- 3.1 In February 1973, DZIT issued draft schedules of fixed asset depreciation rates to be complied with commencing from fiscal year 1972.
- 3.2 With the enactment of the Saudi Arabian Income Tax Law of 2004 ("2004 Tax Law"), which prescribed significant changes to the rules governing calculation of depreciation for tax purposes, it is not anticipated that schedules for oil industry capital assets will be issued by DZIT. In light of the fact that Saudi Aramco has been allowed, pursuant to DZIT letter No. 362/9 dated February 20, 2006 and MinPet Letter No. 133/M Hh/27 dated February 26, 2006, to continue using the depreciation methodology in existence prior to enactment of the 2004 Tax Law; Saudi Aramco shall continue past practices with regard to service lives by (1) continuing to use the existing Saudi Aramco determined capital asset type service lives, and (2) for new capital asset types, determining and applying its own estimated service life.
- 3.3 The only time a capital asset service life should be amended is when the asset is transferred to another function having a different service life established for that same type of asset. When it is necessary to establish a service life for a new capital asset type, P&FAAD will work with the proponent to establish that service life.
- 3.4 The new useful lives are contained in Attachment (1) and are effective for new assets capitalized starting November 1, 2000 except for usage equipment assets that are still covered by Attachment (2).

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4.1 SAP/AM calculates depreciation monthly, and charges are passed to the respective general ledger depreciation accounts.

4.2 Two approved methods may be used for calculating monthly depreciation charges. Both are based on the straight-line concept that assumes that depreciation is a uniform function of time. These are:

4.2.1 LIFE TO DATE.

The amount of the monthly depreciation charge is system calculated using the following formula:

$$a = \frac{(b - c) \times d}{e} - f$$

Where: a = Depreciation for current month

b = Book cost

c = Salvage value

d = Number of months from the beginning depreciation date (Asset Value Date in SAP/AM) to the end of the current month

e = Service life in months

f = Accumulated depreciation to the end of the previous month.

This Life to Date method is used when new assets are capitalized. In SAP/AM, the Asset Value Date in asset record creation can go back as far as January 1 of the current year only.

4.2.2 REMAINING VALUE/REMAINING LIFE.

The amount of the monthly depreciation charge is calculated using the following formula:

$$a = \frac{(b - c - g) \times i}{h} - j$$

Where: a = Depreciation for current month

b = Book cost

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- c = Salvage value
- g = Accumulated depreciation to the end of the previous year calculated as full accumulated depreciation minus the calculated current year depreciation ("j" below).
- h = Number of months from the later of the beginning depreciation date or January of current year (Asset Value Date in SAP/AM) to the end of the capital asset life.
- i = Number of months from and including January of the current year or the beginning depreciation date, whichever is later (Asset Value Date in SAP/AM), to and including the current month.
- j = Calculated amount of depreciation taken in the current year to the end of the previous month. Sometimes referred to as "PROP YTD DEP" meaning proportionate year to date depreciation.

This method will be used when service lives are changed following a capital asset transfer or correction of an error.

- 4.3 Transactions relating to capital assets including additions, book cost adjustments, transfers, retirements, and sales are recorded by P&FAAD through SAP/AM. These transactions will generate adjustments to accumulated depreciation and depreciation expense. SAP/AM also calculates depreciation each month afterwards until the end of the asset's useful life.
- 4.4 All adjustments and depreciation calculated by SAP/AM are passed automatically to the general ledger. Some manual adjustments pertaining to depreciation expense charges under normal asset retirements within the current year may be required and they may be booked directly to the General Ledger through journal entry.

Approved:

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5 OF 10**Attachment (1)**Table of Service Lives (Assets Capitalized starting November 1, 2000)

Item Rate	Description	Est. Life
		No. of Years
0014	Roads, Walks, Pavements	20
0015	Fencing	15
0016	Bridges, Trestles, Culverts	20
0017	Retaining Walls, Fire Walls	20
0019	Railroad Track & Spurs	25
0020	Mechanical PABX Switch	6
0021	Electric Distribution Lines	20
0022	Communication Equipment	14
0023	Electric Light & Power Equipment	15
0024	Wellhead Equipment	15
0025	Buildings, Permanent (other than item rate code 72)	25
0026	Bins	20
0027	Racks, Platforms	20
0028	Wharves, Piers	23
0030	Atmospheric Separators, Settling Basins, Sumps	15
0031	Tanks	23
0033	Drums, Vessels, Misc Containers	20
0034	Iron Packages	15
0035	Agitators, Mixers	12
0036	Filter Presses, Filters	20
0037	Oil Sewers, Sanitary Sewers	14
0038	Fire Protection Pipelines	12
0039	Pipelines, Process Lines	23
0040	Utility Pipelines	15
0042	Pipeline Supports & Trenches	20
0043	Furnaces, Boilers, Heaters	17
0044	Fractionators, Process Towers	18
0045	Heat Exchangers, Condensers, Coils	12
0049	Flow Lines	20
0051	Electric Precipitators	15
0052	Dryers, Kilns, disposal Furnaces	20
0053	Water Wells	25
0054	Cooling Towers	15
0055	Compressors, Blowers, Exhaustors	10
0056	Engines, Turbines	14

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Item Rate	Description	Est. Life No. of Years
0057	Pumps	14
0058	Electric Motors, Generators	20
0059	Plant Instruments, Control Equipment	12
0060	Pulverizing & Screening Equipment	10
0061	Gas & Electric Appliances	6
0062	Laboratory & Testing Equipment	10
0063	Stationary Hoists, Derricks, Cranes	10
0064	Well pipe	25
0065	Forges, Heat Treat Furnaces	15
0066	Weighing & Packaging Equipment	10
0067	Conveyors, Elevators	10
0068	General Equipment	10
0069	Sundry Small Tools	6
0070	Perishable Equipment	6
0071	Superstructures, Stairways, Elev. Walks	15
0072	Portable/Temporary Bldg. (other than item rate code 25)	8
0073	Stratigraphic Drilling Equipment	6
0074	Portable Maintenance Equipment	5
0076	Recreational Facilities	15
0077	Furniture & Fixtures	8
0078	Drafting & Surveying Equipment	8
0079	Office Machines & Appliances	6
0080	Unclassified	15
0081	Computer & EDP Equipment Purchased up to 12/31/84	7
0082	Computer & EDP Equipment Purchased after 12/31/84	5
0083	High Performance Computing (HPC) Clusters & Storage Systems	3
0085	Cathodic Protection	12
1112	Leased Asset-12 Years Depr.	12
1115	Leased Asset-15 Years Depr.	15
1120	Leased Asset-20 Years Depr.	20
1125	Leased Asset-25 Years Depr.	25

Drilling Equipment - see GI 202.331

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GEN. LEDGER ACCTS. / ASSET CLASSES	DESCRIPTION	SERVICE LIFE	SALVAGE VALUE	EFFECTIVE	ITEM RATE
Motor Equipment 2000990 and 2002890/30990-00 and 32890-00	<u>Trailers (Old tag series of 0X and similar)</u>				
	Gen. Cargo Trailers, and Dollies	10	15%	Jan. 1959	0104
	Tank and Dry Van Trailers	7	12%	Jan. 1959	0102
	Refrigerated Van Trailers	5	10%	Jan. 1959	0101
	<u>Light Vehicles (10,000 GVW and below) (Old tag series of 1X and similar)</u>				
	<u>Medium & Heavy Trucks</u> (Old tag series of 2X and similar)				
	Cargo Vehicles;				
	Over 10,000 to 20,000 GVW	4	15%	Jan. 1982	0521
	Over 20,000 to 30,000 GVW	4	5%	Jan. 1982	0522
	Over 30,000 GVW	5	5%	Jan. 1982	0523
	Municipal & Industrial Support Vehicles:				
	Over 10,000 to 20,000 GVW	4	15%	Jan. 1982	0524
	Over 20,000 to 30,000 GVW	6	15%	Jan. 1982	0525
	Over 30,000 GVW	8	15%	Jan. 1982	0526
	Remote Operations Support Vehicles:				
	Over 10,000 to 20,000 GVW	4	15%	Jan. 1982	0527
	Over 20,000 to 30,000 GVW	5	15%	Jan. 1982	0528
	Over 30,000 GVW	8	15%	Jan. 1982	0529
Const Equipment 2000998 and 2002898/30998-00 and 32898-00; 2000464 and 2002464/30464-xx and 32464-xx	<u>Tractors</u> (Old tag series of 3X and similar)				
	Crawler Dozers	6	15%	Jan. 1982	0530
	Rubber Tire Dozers	6	10%	Jan. 1982	0531
	Pipelayers (Sidebooms)	6	15%	Jan. 1982	0532
	Track Type Backhoes	5	10%	Jan. 1982	0533
	Wheeled Type Backhoe/Loaders	5	10%	Jan. 1982	0534

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	Front End Loaders/Pipeloaders	6	10%	Jan. 1982	0535
	Reiohdrills	8	15%	Jan. 1982	0536
GEN. LEDGER ACCTS. / ASSET CLASSES	DESCRIPTION	SERVICE LIFE	SALVAGE VALUE	EFFECTIVE	ITEM RATE
	Tow Tractors	5	5%	Jan. 1982	0537
	Skid Loader/Trenchers	4	5%	Jan. 1982	0538
	Farm Tractors	5	10%	Jan. 1982	0539
Const Equipment 2000998 and 2002898/30998-00 and 32898-00; 2000464 and 2002464/30464-xx and 32464-xx	<u>Cranes</u> (Old tag series of 4X and similar)				
	Hydraulic Yard Crane 5-15 Ton	4	5%	Jan. 1982	0540
	RT/TM Hydraulic Crane 18 - 20 Ton	5	10%	Jan. 1982	0541
	RT/TM Hydraulic Crane 25 - 35 Ton	6	10%	Jan. 1982	0542
	RT/TM Hydraulic Crane 40 - 55 Ton	6	10%	Jan. 1982	0543
	RT/TM Hydraulic Crane 80 -100 Ton	8	15%	Jan. 1982	0544
	TM Hydraulic Crane 115-140 Ton	10	15%	Jan. 1982	0545
	Mobile Lattice Boom Crane 50 Ton	6	10%	Jan. 1982	0546
	Mobile Lattice Boom Crane 90 Ton	8	10%	Jan. 1982	0547
	Mobile Lattice Boom Crane 300 Ton	10	15%	Jan. 1982	0548
	Crawler Lattice Boom 50 Ton	6	10%	Jan. 1982	0549
	Crawler Lattice Boom 100-150 Ton	8	10%	Jan. 1982	0146
	Crawler Lattice Boom 225-300 Ton	10	15%	Jan. 1982	0147
	Crawler Lattice Boom 400 Ton	12	15%	Jan. 1982	0148
	<u>Road Grading Equipment-Self Propelled</u> (Old tag series of 8X and similar)				
	Graders	5	10%	Jan. 1982	0581
	Gradalls	5	10%	Jan. 1982	0582
	Scrapers	10	15%	Jan. 1982	0583
	Vibratory Compactors	6	10%	Jan. 1982	0584
	Sweeper Road Diesel Driven	5	10%	Jan. 1982	0585
	Sweeper Yard Diesel Driven	5	10%	Jan. 1982	0586
	Sweeper Warehouse Electric Driven	4	5%	Jan. 1982	0587
	Off-Road Earth Haulers	6	10%	Jan. 1982	0588
Const Equipment General 2000461 and 2002461/30461-00 and 32461-00;	Air Compressors Diesel Driven 160-760 cfm (Old tag series of 5X and similar)	4	5%	Jan. 1982	0550

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GEN. LEDGER ACCTS. / ASSET CLASSES	DESCRIPTION	SERVICE LIFE	SALVAGE VALUE	EFFECTIVE	ITEM RATE
2000464 and 2002464/30464-xx and 32464-xx	Welding Machines; Diesel Driven 300/400 amps (Old tag series of 6X and similar)	4	5%	Jan. 1982	0560
	Concrete Mixers 1/2 - 3 1/2 cy (Old tag series of 7X and similar)	5	5%	Jan. 1982	0570
	Generators (Old tag series of 24X and similar)	4	5%	Jan. 1982	0610
	Floodlight Gensets 6 kw, Diesel Driven				
	Generator Sets, 10-15 kw, Diesel Driven	4	5%	Jan. 1982	0611
	Generator Sets, 30-50 kw, Diesel Driven	4	5%	Jan. 1982	0612
	Generator Sets, 75 kw, Diesel Driven	5	10%	Jan. 1982	0613
	Generator Sets, 100-175 kw, Diesel Driven	5	10%	Jan. 1982	0614
	Generator Sets, 200-300 kw, Diesel Driven	6	10%	Jan. 1982	0615
	Generator Sets, 400-600 kw, Diesel Driven	6	10%	Jan. 1982	0616
	Generator Sets, 800-900 kw, Diesel Driven	8	15%	Jan. 1982	0617
Const Equipment General 2000461 and 2002461/30461-00 and 32461-00; 2000464 and 2002464/30464-xx and 32464-xx	Welding Machines Electric Driven 300/500 amps (Old tag series of 29X and similar)	4	5%	Jan. 1982	0620
	Portable A/C (Old tag series of 43X and similar)	5	-		0055
	<u>Forklifts</u> (Old tag series of 89X and similar)				
	Forklift Truck 2,500-4,000 lb. Electric	4	10%	Jan. 1982	0650
	Walkie Pallet Truck 2,000-4,000 lb., Elec.	4	10%	Jan. 1982	0651
	Forklift Truck 5,000-10,000 lb., diesel	5	10%	Jan. 1982	0652
	Forklift Truck 15,000-20,000 lb., diesel	6	10%	Jan. 1982	0653
	Forklift Truck 25,000-40,000 lb., diesel	7	10%	Jan. 1982	0654
	Forklift Truck 45,000-80,000 lb., diesel	8	10%	Jan. 1982	0655
	Sideloader Forklift 20,000-40,000 lb. diesel	6	10%	Jan. 1982	0656

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GEN. LEDGER ACCTS. / ASSET CLASSES	DESCRIPTION	SERVICE LIFE	SALVAGE VALUE	EFFECTIVE	ITEM RATE
Marine Equip 2000993 and 2002893/30993-00 and 32893-00	Marine Equipment-Steel Hull	13 1/3	NIL		0191
	Marine Equipment-Wooden Hull	13 1/3	NIL		0192
Aramco Repair Barge	ARB #1	13 1/3	NIL	Jan. 1959	0191
Aramco Repair Barge 2000994 and 2002894/30994-00 and 32894-00	ARB #3	30	NIL	Dec. 2010	0193
<hr/>					
Aircraft-Major Components 2000995/30995-00	<u>Aircraft - Major Components</u>				
	Aircraft-Twin Otter DHC-6 (New)	10	10%	-	0194
	Aircraft-Twin Otter DHC-6 (Second Hand)	4	10%	-	0195
	Helicopter - Bell	10	10%	-	0196
	Aircraft F-27	10	10%	-	0197
	Aircraft - Gulf Stream	10	10%	-	0198
	Aircraft - Rockwell Turbo Commander	4	10%	-	0200
	Aircraft - Boeing 737	10	10%	-	0206
	Aircraft- Embraer 170 LR	16	25%	-	0207
	Aircraft- King Air	15	25%	-	0199
	Aircraft - Hawker 900XP	15	25%	-	0208