CONTENT: This General Instruction (GI) outlines the corporate financial policies and procedures for the handling of costs associated with casualty events. The text includes:

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The following attachments are an integral part of this instruction:

Attachment A: An Example of a WBS Job Order and Phase Number Opening
Attachment B: An Example of Accounting for a Plant Fire

1. GLOSSARY

1.1. ABBREVIATIONS & ACRONYMS

AM	-	Asset Management
BI	-	Budget Item
BOD	-	Board of Directors
CC	-	Cost Center
CPF&AD	-	Capital Programs, Forecast & Analysis Division/FA&PAD
D&BI-19	-	Drilling & BI-19 Unit/P&FAAD
ER	-	Expenditure Request
EXCOM	-	Executive Committee
FAU	-	Fixed Assets Unit/P&FAAD
FA&PAD	-	Financial Analysis & Performance Advisory Department
FPD	-	Facilities Planning Department
GI	-	General Instruction
IFRS	-	International Financial Reporting Standards
IO	-	Internal Order
IPU	-	Invoice Processing Unit/PAD
JO	-	Job Order
NDE	-	Net Direct Expenditures
OAD	-	Operations Accounting Department
O/T	-	Overtime

PAD	-	Payables Accounting Division/OAD
PCP	-	Projects & Capital Planning Module/SAP
P&FAAD	-	Projects & Fixed Assets Accounting Division/OAD
PS	-	Project System
RMD	-	Risk Management Division/TAD
TAD	-	Treasury Advisory Department
USD	-	US Dollar
WBS	-	Work Breakdown Structure

1.2. RELATED REFERENCES

AI 152	-	Internal Orders
AI 203	-	Incomplete Construction
AI 206	-	Accounting for Disposition of Capital Assets
GI 006.001	-	Notification Requirements for Incidents (Including Fire)
GI 006.003	-	Guide for Committees Investigating Major Incidents and Engineering Reviews of Other Incidents
GI 020.110	-	Non-Capital Program and Budget
GI 020.500	-	Expenditure Requests
GI 020.510	-	Budget Item, Expenditure Request & Job Order Numbering System
GI 020.620	-	Miscellaneous Projects & Purchases Master Appropriation (BI-19)
GI 207.050	-	Form SA 630 - Capital Assets Change Authorization
GI 216.965	-	Cost Distribution Rates
GI 270.003	-	Labor Costing and Analysis
Sec. 300-310	-	Accounting Manual/Capital Assets/Capital versus Expense

2. DEFINITIONS

2.1. Casualty Event – An accidental occurrence involving property damage or bodily injury for which insurance is commonly available. It does not include indirect or time related cost losses such as business interruption. Determination of cost related to such events will be on the same basis as typically interpreted in commercial insurance policies covering such events.

2.2. Construction Agency – The Saudi Aramco organization responsible for engineering, materials procurement and construction of an engineered project (as defined in GI 20.620). The Construction Agency may be the Proponent or Project Management.

2.3. Major, Moderate and Minor Casualty incidents – For guidance on the definitions of major, moderate and minor casualty incidents refer to GI 006.001.

2.4. Minimum Capital Value – $20,000 and includes delivery, installation and commissioning costs for an asset (as defined in GI 020.620).

2.5. Extraordinary casualty loss – For accounting purposes a casualty event with repair and replacement cost forecast of one million USD or more.

2.6. Ordinary casualty loss – For accounting purposes a casualty event with repair and replacement cost forecast of less than one million USD.

2.7. Rebuilding – When an individual equipment unit is rebuilt, the following rules will apply:

- If costs of new parts and rebuilding are $20,000 or more and increases the original useful service life of the equipment by three years or more, then the parts removed should be retired and the cost of new parts and rebuilding should be capitalized. If the service life of the equipment is not increased by three years or more the cost is expensed.

- If costs of new parts and rebuilding are less than $20,000, the costs should be charged to expense with no changes in the book value of the unit rebuilt.

2.8. Replacement Equipment – Replacing a complete equipment unit will be accounted for by retirement of the old unit and addition of the new unit, if the new unit costs $20,000 or more, exclusive of installation costs. This rule applies regardless of whether the replacement of the equipment unit is in kind with similar piece equipment (as defined in Accounting Manual, Capital Assets, Sec. 300 – 310).

2.9. Total Project Cost – is the sum of the costs of both capital and expense scope elements.

3. NOTIFICATION REQUIREMENTS AND INVESTIGATION GUIDELINES

GIs 006.001 and 006.003 cover notification requirements and investigation guidelines for casualty incidents.

4. INTRODUCTION

Each casualty circumstance is unique. To accumulate the costs incurred during a casualty and enable management to identify and control these costs, to process insurance claims and to segregate any capital expenditures in accordance with established accounting guidelines, Saudi Aramco uses the following two cost collectors depending on the circumstance:

1. IO - Type Prefix 6701 issued by RMD
2. Emergency Project WBS – Type Prefix 24 maintained by CPF&AD

Note: An Emergency Project WBS is only used in cases where the casualty can be classified as a "Major" casualty with anticipated Total Project Cost of greater than $4 million. An Emergency Project WBS is part of the Non-Capital Program and Budget. Refer to GI 20.110 for further discussion on the review and approval process for this WBS.

5. ASSIGNMENT OF AN IO NUMBER FOR ACCUMULATING CASUALTY COSTS

5.1. Regardless of the estimated cost of a casualty event, RMD will issue an IO under Type Prefix 67 to accumulate the following costs and expenses for all casualty costs exceeding $20,000:

- Costs or expenses to repair physical damage to or loss of Saudi Aramco property caused by accidental occurrence including fire, explosion, impact, theft or robbery.
- Costs or expenses incurred as a result of an oil spill from Saudi Aramco facilities and sources other than known third parties.
- To record the net book value of the damaged assets to be written-off (refer to section 12).
- To record salvage value credits, if any.
- To record credits from insurance proceeds (refer to section 10).

If the estimated cost of a casualty event is anticipated to be greater than 4 million USD then an Emergency Project WBS is used to accumulated and control the associated costs and the expense portion of those costs will settle to this IO (refer to section 8).

5.2. Costs and Expenses

Saudi Aramco labor costs (including overtime) are reallocated costs (refer to GI 270.003, Labor Costing and Analysis). All other charges for material, equipment usage, repair cost, contractor invoiced cost, etc. should be booked directly to the IO using original cost elements and not to the organization's NDE consistent with established procedures.

6. COSTS AND EXPENSES WHICH ARE NOT CHARGEABLE TO THE IO

6.1. Costs and expenses from non-accidental occurrences such as routine maintenance, normal wear and tear including pinhole leaks due to corrosion, depreciation, faulty design, improper construction and installation are expenses to be charged to the respective organization's account unless these occurrences are caused by a fire, explosion, or other casualty event.

6.2. Costs and expenses for replacement, improvement and betterment of property other than repair or replacement of property damaged by a casualty event. Note: replacement of property costing more than $20,000 is treated as capital property (refer to section 7).

6.3. Costs and expenses that are not supported by proper documentation.

6.4. Temporary repairs are considered business interruption costs if they do not form part of the permanent repair of damaged items and may not be recoverable from RMD.

7. CAPITAL ASSET REPLACEMENTS AT A COST UP TO $4 MILLION – BI 19

Replacement costs or rebuilding costs will be accounted for under the rules and principles prescribed in the Accounting Manual Sections 300-310, Capital Assets.

The replacement of capital assets for casualty losses costing up to $4 million will be funded by BI-19, Miscellaneous Projects & Purchases.

8. EMERGENCY PROJECT WBS ACCOUNT FOR TOTAL PROJECT COST ANTICIPATED AT OVER $4 MILLION

8.1. Emergency Project WBS Account and Regular Capital Budget Item

Costs incurred during a major casualty event may include expenditures associated with firefighting, pollution control, temporary repairs and repair or replacement of damaged facilities. The immediate assignment of an Emergency Project WBS Account and JO numbers enables management to identify, accumulate and control costs, to process insurance claims and to segregate capital expenditures in accordance with established accounting guidelines. The capital asset replacements will also require a regular capital BI for funding (refer to section 9).

The control of these costs is the responsibility of the designated Construction Agency responsible for restoring the facility to operation. D&BI-19, assisted (as necessary) by designated Construction Agency personnel, will further analyze these costs.

8.2. Emergency Project WBS Accounts

Emergency Project WBS Accounts under SAP Project Type prefix 24 are maintained by CPF&AD. CPF&AD will assist proponents in all procedural matters associated with initial setting up of the Emergency Project WBS Accounts. The Emergency Project WBS Accounts will be assigned to specific events as necessary by D&BI-19. The Construction Agency and P&FAAD will maintain one special WBS JO number with a standard phase number 100 in an open status in the SAP/PCP/PS to accumulate emergency type costs directly associated with the casualty. These costs usually occur during the initial clean-up activities of the casualty. The WBS phase number 100 will be routinely provided at the request of the organizations likely to be immediately involved in providing materials or assistance to the containment effort. This is done to minimize potential procedural or administrative delays to any damage containment effort.

8.3. WBS Phase Numbers

Standard WBS phase numbers within the Emergency Project WBS Account will be assigned to segregate and accumulate costs for financial and control purposes. D&BI-19 determines the WBS phase numbers in conjunction with the parties involved, such as Project Management personnel, RMD personnel, and the insurance claims adjuster (The Construction Agency is responsible for creating the WBS JO number and its phase numbers while D&BI-19 is responsible for activating them in SAP/PCP/PS).

Refer to Attachment A of this GI for a listing of typical phase assignments during the initial emergency clean-up and temporary repair phases.

8.4. Settlement to the IO

Costs such as reallocated labor, materials, equipment usage, etc., used directly to contain the casualty will be charged to Phase 100 of the special WBS JO using the appropriate cost element. Costs are eventually settled from the special WBS JO to the IO issued by RMD (section 5 above) at the end of the accounting period.

8.5. Settlement of Capital Expenditures

Refer to section 9.2 for further detail.

9. BI 10 FOR REPLACEMENT OF CAPITAL ASSETS COSTING OVER $4 MILLION

9.1. Regular Capital BI – SAP Project Type Prefix 10

A separate regular Capital BI under Project Type Prefix 10 should be developed by FPD and the proponent for submission to the BOD or EXCOM for funding approval to rebuild or restore a facility to its condition prior to suffering a casualty. D&BI-19 and the Construction Agency will determine WBS JO numbers and phase requirements for the BI associated with a rebuild in conjunction with the RMD. The Construction Agency will create the WBS JO numbers and phases and D&BI-19 will activate them in SAP/PCP/PS.

9.2. <u>ER</u>

FPD and CPF&AD will assist proponents in all procedural matters associated with the development of the ER. The ER should be prepared in accordance with GI 20.500, Expenditure Requests. It should detail the costs already incurred against the Emergency Project WBS Account and the total estimated expenditures required to restore the facility to the condition existing prior to the incident, as well as any required safety enhancements or other betterments and improvements.

See Attachment B for an example of the accounting entries for a Major Casualty loss requiring facility replacement.

10. INSURANCE CLAIM FOR CASUALTY LOSSES

10.1. Complete supporting documentation (reports, invoices, etc.) and justification of all costs related to disaster control, clean-up, dismantling, repair, and replacement are required by the insurers. For major casualty losses requiring facility replacement, the D&BI-19 accountant will coordinate with the proponent and provide the necessary documentation as soon as possible after the event. For all other casualty losses, the proponent will provide all the necessary documentation.

10.2. The D&BI-19 will sort supporting documentation for major casualty losses requiring facility replacement by phase number under the special WBS JO number and file them in separate monthly files. These files will be retained by the job accountant and made available to other Saudi Aramco organizations as necessary.

10.3. Costs associated with facilities enhancement rather than "in-kind" replacement must be specifically identified for possible negotiation in the settlement of the insurance claim.

10.4. In preparing the claim, insurance recoverability/non-recoverability must be kept separate and distinct from capital versus expense classifications in the IO.

10.5. Items classified as expense are part of the casualty gain or loss determination regardless of insurance recoverability.

10.6. RMD will submit claims to the insurer's claims adjusters and/or to the Company's Insurance Broker and/or the Protection and Indemnity Club/Insurer. RMD will obtain the necessary Confidentially Agreement from any outside entity prior to release of any documents or information.

11. ACCOUNTING TREATMENT

11.1. In accordance with IFRS, a probable loss or a virtually certain gain associated with a casualty event which can be reliably estimated, must be determined and recorded in the period when the event occurred.

11.2. Cost accumulated in the IO will settle to one of the following casualty loss cost centers depending on the type of casualty event:

Cost Center (CC)	**Description**
440910	Extraordinary Casualty Gain or Loss (cost > $1,000,000)
440911	Ordinary Casualty Gain or Loss (cost < $1,000,000)
440912	Cargo & Personal Effects Losses
440915	Liability Claims – Employee - Extraordinary Loss
440916	Liability Claims – Employee - Ordinary Loss
440917	Liability Claims –3rd Party- Extraordinary Loss
440918	Liability Claims –3rd Party - Ordinary Loss
440919	Oil Spill Clean-up Costs – Extraordinary Loss
440920	Oil Spill Clean-up Costs - Ordinary Loss
440921	Builders Risk Loss – Extraordinary
440922	Builders Risk Loss – Ordinary

11.3. Costs (including applicable overheads) of any excess or surplus materials remaining at completion of the project for a major casualty loss are transferred from the special WBS JO standard phase 100, using original cost elements, to phase 077. Any credits received, full or partial, from the sale or other disposal of these materials, are credited to phase 077. At project completion, the net cost remaining in phase 077 is settled to cost center 427450 'Gain/Loss - Surplus/Excess Materials - Construction Projects'.

11.4. Amounts recognized as due from insurance will be recorded in the appropriate receivables account with the offsetting credit to the IO.

12. WRITE-OFF OF DAMAGED ASSETS

12.1. FAU will furnish the proponent with a list of assets of specific plants or locations to assist in preparing the required Form SA 630, "Capital Assets Change Authorization". Refer to GI 207.050 for the write-off of the damaged assets.

12.2. The net book value for the totally damaged assets will be charged initially to cost center 440910 or 440911 through SAP/AM (refer to AI 206 Section 5). From the cost center, the amount will be transferred by FAU to the IO.

Approved: ______________________________
A. A. AL-RUWAII, Manager (A)
Accounting Policies & Systems Department

WS

ATTACHMENT A

AN EXAMPLE OF A WBS JOB ORDER AND PHASE NUMBER OPENING

WBS JOB ORDER NUMBER	**WBS PHASE NUMBER**	**TYPICAL PHASES OPENED INITIALLY FOR THE SPECIAL BUDGET ITEM**
24-024XX-XXX1	100	Direct disaster containment activities
	101-299	Specific phases. To be determined by P&FAAD Job Accountant and Construction/Project Engineer
	5XX	Expense items
	510	Cleanup and dismantling costs
	520	Temporary repairs and installation to restore operations
	530	Repair costs
	540	Salvage value credits
	550	Pollution control and cleanup
	560	Costs of inspection to ascertain damage
	6XX	Other major expense items
	610	Mobilization and demobilization costs
	620	Expediting expenses (i.e. airfreight or premiums for expeditious delivery by manufacturers)
	621	Contractor O/T hours and costs - insurance adjusters may want to know what O/T was paid and why.
	630	Bonus costs
	640	Engineering studies
	650	Outside consulting services
	660	Underwriter survey expenses
	670	Community damages and claims
	999	Accounting clearances only

NOTE:
This is an example of WBS JO and phases required during the emergency clean-up and temporary repair phase of the project. The restoration or rebuild effort phases will be established by the construction agency in conjunction with P&FAAD and RMD.

ATTACHMENT B

AN EXAMPLE OF ACCOUNTING FOR A PLANT FIRE

The following assumptions apply in this example: (USD Millions)

Book value of entire plant before fire	150
Insurance deductible	20
Book value of assets destroyed	25
Replacement cost (Capital USD 55 plus Expense USD 5)	60
Insurance Proceeds (USD 57 recoverable base minus USD 20 deductible)	37

- Emergency Project WBS Account 24-024XX used at time of fire
- Regular Capital BI 10-XXXXX approved later for complete rebuild
- An IO is opened by RMD for casualty gain/loss determination

ACCOUNTS

24-024XX-XXX		10-XXXXX-XXX		IO 67-XXXXX-XX	
A) 5	5 D)	B) 55	55 E)	C) 25	37 F)
				D) 5	
				G) 7	

CASH		NET ASSETS		CASUALTY GAIN/LOSS (Cost Elements) (CC 440910)	
F) 37	5 A)	Beginning balance 150			7 G)***
	55 B)	E) 55	25 C)		
	23 ***	Ending balance 180			
		+30 Increase		7 Gain	

A - ENTRY

DR	24-024XX-XXX	Expenses incurred in cleanup and temporary operations	USD 5
CR	Cash	Cash	USD 5

B - ENTRY

DR	10-XXXX-XXX	Spent for Capital portion of rebuild	USD 55
CR	Cash	Cash	USD 55

C - ENTRY

DR	IO 67-XXXXX-XXX	Write-off of book value of assets destroyed (manual entry via cost center 440910/440991)	USD 25
CR	Net Assets	Net Assets	USD 25

D - ENTRY

DR	IO 67-XXXXX-XXX	Settle Expenses to IO	USD 5
CR	24-024XX	Expenses	USD 5

E - ENTRY

DR	Net Assets	Close Capital Expenditure to Net Assets	USD 55
CR	10-XXXXX	Capital Asset	USD 55

F - ENTRY

DR	Cash	Cash: Book Insurance Proceeds. USD 57 recoverable base - 20 deductible = USD 37 insurance proceeds (this would ordinarily be through a receivable account)	USD 37
CR	IO 67-XXXXX-XXX	Offset against loss	USD 37

G - ENTRY

DR	IO 67-XXXXX-XXX	Close to Casualty Gain/Loss	USD 7
CR	Various Cost Elements (CC 440XXX)	Casualty Gain/Loss	USD 7

This settlement of IO occurs continually. It is shown here for illustrative purposes.

***** Summary:**

Net Assets have increased USD 30, funded by cash of USD 23 and a casualty gain of USD 7 for this example.

Note: Portions of the cost of replacement are assumed to be unrecoverable from insurance proceeds.