

SAUDI ARABIAN OIL COMPANY (Saudi Aramco)

GENERAL INSTRUCTION MANUAL

GI No. **Approved**
20.031

ISSUING ORG. FINANCIAL ACCOUNTING DEPARTMENT

ISSUE DATE 12/19/2016 REPLACES 06/11/2011

SUBJECT CAPITAL PROGRAM AND BUDGET

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CONTENT

This General Instruction outlines the objectives and scope of the Capital Program and Budget and describes procedures for their development, processing, approval and distribution. The text includes:

1. Objectives
2. Scope
3. Capital Program
4. Capital Budget
5. Responsibilities & Procedures
6. Review, Approval & Publication
7. Revisions to the Budget
8. Accountability & MIS Reporting
9. Related Instructions

1.0 OBJECTIVES

Saudi Aramco administers the Capital Program and annual Capital Budget to plan, budget and control major capital investment requirements for the Company. The majority of Saudi Aramco's Capital Program is for crude oil and gas and NGL production projects. However, the Capital Program also includes, Downstream projects such as refining, pipelines, distribution facilities, and terminals to support demand for refined products and Corporate projects such as industrial support and research and technology.

2.0 SCOPE

The Capital Program and Budget include all costs associated with Budget Items (BIs) (including, engineering and construction), grouped by Business Line and Program, and established to accomplish Corporate Objectives.

- 2.1 Major Capital Projects are projects with a cost greater than \$4,000,000 and are reflected in the annual Capital Budget as separate BIs.
- 2.2 Miscellaneous Projects & Purchases are projects with a minimum cost of \$20,000 and a maximum cost of \$4,000,000 and are included in the Capital Program and Budget under a consolidated BI-19. (GI 20.620 covers BI-19 projects).

These Capital projects should result into tangible assets that meet the Company's minimum capitalization threshold of \$20,000. Capital assets include assets devoted to exploration, production, refining, transportation, shipping, storing, processing, and all other incidental operations of the Company.

3.0 CAPITAL PROGRAM

The Capital Program is developed to forecast capital requirements over the Business Plan. The Capital Program includes all major facilities that are projected to require funding appropriations covered during the stipulated Business Plan period. The Capital Program also includes data of capital expenditures planned during each year of the Business Plan. Planning briefs that define scope, are provided to support the justification and study cost estimates for each project proposed, and should be prepared in accordance with GI 20.500: *Expenditure Requests*

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and the *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs* issued by the Facilities Planning Department (FPD). The purpose of the Capital Program is to provide Saudi Aramco's Board of Directors with all information necessary to make a reasonable business decision regarding continued development of proposed capital project.

4.0 CAPITAL BUDGET

The Capital Budget is a detailed look at the first year of the Board of Directors endorsed Capital Program and includes budget briefs that define scope, and provide justification and budgetary cost estimates for each project proposed for Expenditure Request (ER) funding approval in the upcoming fiscal year. Budget briefs are prepared in accordance with GI 20.500: *Expenditure Requests* and the *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs* issued by the Facilities Planning Department (FPD).

5.0 RESPONSIBILITIES & PROCEDURES

- 5.1 Proponents, with assistance from the Portfolio Analysis & Decision Support Department (PA&DSD) and FPD, must formulate specific goals and objectives that are consistent with Saudi Aramco's strategic objectives. These goals and objectives drive capital investment requirements which are developed into:
- Appropriation Requests (ARs) which are formal requests to seek inclusion of BIs in the annual capital program.
 - Budget Items (BIs) which are basic constructible units that may be for a single facility or for several related facilities which logically make up a constructible unit.
 - Expenditure Requests (ERs) which are formal requests for approval of BIs. The approval of an ER authorizes the project to proceed with the detailed design, material procurement and construction.
- 5.2 FPD in conjunction with the Proponent determine the scope of work required to meet the planned goals and objectives, which in turn support the Corporate Objectives. Proponents prepare draft descriptions of proposed Appropriation Requests and forward these to FPD for further handling. FPD assists Business Lines and Proponent Organizations in optimizing the Capital Program by identifying opportunities, resources and constraints.
- 5.3 Planning briefs, budget briefs, and Expenditure Requests are prepared in accordance with GI 20.500 *Expenditure Request* and the *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs* issued by the FPD.
- 5.4 FPD, the Project Management Office Department (PMOD), and the PA&DSD, and the assigned Construction Agency will provide staff assistance with the engineering review, business case assessment, preparation of cost estimates, development of economic justifications, development of project schedules, and time-phased expenditures forecasts.
- 5.5 Capital Program Division (CPD)/Financial Accounting Department (FAD) reviews BIs and Expenditure Requests for adherence to applicable policies and procedures in addition to assessing the business cases and other aspects of projects.

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6.0 REVIEW, APPROVAL & PUBLICATION

- 6.1 Corporate Staff Reviews, coordinated by FPD, review proposed BIs before the Capital Program is reviewed by the Executive Advisory Committee (EAC) and the Management Committee (MC) during the annual Business Plan cycle. CPD represents Controller's at CSR and coordinates and provides the Controller's Organization input into the review and analysis of the Capital Program and Budget.
- 6.2 The Capital Program is submitted by FPD to the EAC and the MC for review and recommendations during the annual Business Plan cycle. CPD assists in preparing the Capital Program materials for the Business Plan published by Planning & Performance Management Department (P&PMMD).
- 6.3 The Capital Program is then endorsed by the Board of Directors at their fall meeting. The annual Capital Budget, the first year of the Capital Program, is also reviewed and approved at the same Board of Directors meeting. Although BIs are endorsed as part of the approved Capital Budget, specific ER approval to expend funds against a BI is still required before execution of the project can proceed.
- 6.4 CPD publishes the annual Capital Budgets book, and FPD publishes Capital Program.

7.0 REVISIONS TO THE BUDGET

The Capital Budget is revised as necessary based on approved Expenditure Requests processed in accordance with GI 20.500 and approved as required in Section IV of the Management Guide.

8.0 ACCOUNTABILITY & MIS REPORTING

On a quarterly basis for accountability purposes, CPD issues the following reports:

- AR 190-2: *Projects In Execution*. The purpose of the AR 190-2 report is to provide the status of the Capital Program expenditures for all Capital and Public Support (formerly Non-Capital) BIs. The report also covers the expenditures forecast to completion and completion timelines, thus highlighting BIs that require supplement or partial cancellation funding actions along with extensions for completion timelines.
- AR 190-3: *Project Financial Closeout*. The purpose of the AR 190-3 report is to provide the status of Capital and Public Support BIs including annual and master appropriations that are in the stage of financial closeout. An overview of the ERs that were mechanically completed and completely closed is also provided along with a listing of ERs by Business Line that remained financially active in the closeout phase.
- AR 197: *Capital Appropriations*. The purpose of the AR 197 report is to provide the status of appropriation approved for Capital and Public Support BIs compared to the current fiscal year's annual Capital Budgets approved by the Board of Directors of Saudi Aramco.

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On a quarterly basis, CPD prepares the “Capital & Public Support” materials of the corporate level accountability exercises for Corporate Management, that specifically address Capital and Public Support BIs’ expenditures and activities.

On a monthly basis, CPD also prepares the “Capital & Public Support” section of the Management Information System (MIS) report for Management Committee review. Accounting records, proponent, and Project Management input serve as source data. The MIS report shows the year-to-date and full year expenditure status for Capital and Public Support BIs.

9.0 RELATED INSTRUCTIONS

Management Guide, Section 4: *Approval Authority*

GI 20.081: *Exploration Program and Budget*

GI 20.101: *Development Program and Budget*

GI 20.110: *Public Support Program and Budget*

GI 20.151: *Home Ownership & Community Development Program & Budget*

GI 20.500: *Expenditure Requests*

GI 20.510: *Budget Item, Expenditure Request and Job Order Numbering System*

GI 20.520: *Project Change Request*

GI 20.620: *Miscellaneous Projects & Purchases Master Appropriation (BI-19)*

GI 20.720: *Maintain Potential Master Appropriations*

GI 21.201: *Approval Authority*

Approved by:

MESHAAL F. AL-RUBAYA, Manager
Financial Accounting Department

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