

# SAUDI ARABIAN OIL COMPANY (Saudi Aramco)

## GENERAL INSTRUCTION MANUAL

ISSUING ORG. FINANCIAL ACCOUNTING DEPARTMENT

SUBJECT EXPENDITURE REQUESTS

GI NUMBER **APPROVED**  
**20.500**

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### 1.0 PURPOSE

This document provides instructions on how Expenditure Requests and their associated activities should be handled. Approval authorities required for Expenditures Requests are outlined in Management Guide, Section 4: *Approval Authority* and additional details are provided in GI 20.500.

An approved Expenditure Request (ER) authorizes expenditures for a Budget Item (BI) or a Master Appropriation release associated with the following programs:

| <u>Program Title</u>            | <u>Documented In</u>                                |
|---------------------------------|-----------------------------------------------------|
| a) Exploration Program          | Exploration Programs and Budget (GI 20.081)         |
| b) Development Drilling Program | Development Drilling Program and Budget (GI 20.101) |
| c) Capital Program              | Capital Program and Budget (GI 20.031)              |
| d) Public Support Program       | Public Support Program and Budget (GI 20.110)       |

Relevant definitions are as follows:

**Business Plan (BP)** – The Business Plan is Saudi Aramco's principal planning document. It defines how Corporate objectives are met, and it includes projected Manpower requirements and estimates of Controllable Costs. Internal reviews of the plan are conducted first by the Executive Advisory Committee (EAC) and then by the Management Committee (MC). The Board of Directors endorses the BP annually at the December Board of Directors meeting.

**Capital Program (CP)** – The Business Plan Capital Program is the overall plan for capital investments and includes a list of projects proposed for funding approval over the BP period. Projects included in the BP Capital Program should be supported by Planning Briefs with Business Case Estimates. The BP Capital Program also includes the forecasted Capital expenditures and Public Support expenditures for projects planned and under construction for each year in the CP.

**Capital Budgets (CB)** – The annual Capital Budgets provide a detailed look at the first year of the BP Capital Program and include Budget Item (BI) Budget Briefs that define the scope and business case justification for each

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project proposed for Expenditure Request (ER) funding approval in the upcoming year. Projects included in the Capital Budgets should be supported by Project Management Office Department (PMOD)-endorsed  $\pm 30\%$  Budget Estimates.

Appropriation Request (AR) – An AR is the formal request by a Proponent to seek inclusion of a project into the Capital Program.

Budget Item (BI) – A Budget Item is developed to fund the cohesive scope of a project which may include a single facility, several related facilities, or pieces of work under a program. BIs should be supported by compelling business case justifications. The term Budget Item refers to a project that is included in the Capital Program, endorsed by the Board, but has not received full funding approval.

Expenditure Request (ER) – The ER is a formal request for full funding approval of a BI. An approved ER provides authorization to make commitments and incur expenditures for scope described in the ER.

Project Proponent – The custodian of the operating plant or facility where the project is to be executed and who is the project's beneficiary should be the Project Proponent. The only exceptions are Government-directed projects for activities outside of Saudi Aramco's core businesses, where Management designates the responsible organization within the Company as the Project Proponent.

## 2.0 G.I. ACCOUNTABILITY

- 2.1. Ownership – The owner of this G.I. is the Controller.
- 2.2. Authority – Any deviation from, or questions related to, this G.I. must be reviewed and discussed with Capital Programs Division/Financial Accounting Department (CPD/FAD).
- 2.3. Accountability – All organizations are accountable for complying with this G.I., CPD/FAD should be consulted in the event of an apparent conflict between this G.I. and any other GI, Standard or Corporate Policy.

This G.I. is not intended to be a Manual of Approval Authorities and should be used in conjunction with Saudi Aramco's Management Guide.

## 3.0 FUNDING ACTIONS PRIOR TO EXPENDITURE REQUEST APPROVAL

- 3.1 Preliminary Engineering (PE) Funds – PE Funds cover the cost of engineering activities after the selection of the alternative and before ER funding approval. This may include funds for engineering activities necessary to develop the part of the Design Basis Scoping Paper (DBSP) controlled by the construction agency and the Project Proposal defining the project scope sufficiently to support a  $\pm 10\%$  ER-quality cost estimate. PE Funds are appropriated annually by the Board of Directors at the time of endorsement of the BP. The PE Budget is administered by the Project Management Office Department (PMOD). If required, PE funds should only be used after endorsement of the Gate Alternative Selection (GAS) for development of the endorsed alternative in the DBSP and Project Proposal phases prior to ERA. PE funds may only be used for engineering and may not be used for materials or construction. Additional information regarding PE funding can be found in SAEP-14, *Project Proposal*, and GI

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202.451: *Engineering Work Order Authorization for Preliminary Engineering Preparation – Saudi Aramco Form SA-6891.*

Due to the routine and repetitive nature of Master Appropriation scopes of work, and the fact that the full scopes cannot be defined at the time the ER is approved, Master Appropriations do not qualify for Preliminary Engineering funds (TC-68). Preliminary Engineering, if required, can be performed after ERA. Due to their unique and varied nature, BI-19 project may require PE funds per GI 20.620: *Miscellaneous Projects & Purchases Master Appropriation (BI-19).*

New Business Development (NBD) Project Development Expenditures (Project Type Code 40) – NBD Project Development Expenditures cover business travel and consulting services costs during the transaction execution phase of NBD's approved Corporate transactions. These costs are never capitalized as assets on Saudi Aramco's books but are tracked for potential recognition as an investment in a Joint Venture or an Affiliate. For more information, please refer to GI 288.040: *NBD Project Development Expenditures – Project Type Code 40.*

- 3.2 Prior Approval Expenditure Request (PAER) – A Prior Approval Expenditure Request funds a portion of a proposed scope of work for critical fixed-scope projects driven by schedule, such as the purchase of long-lead materials. The use of PAERs as a funding mechanism should be limited to projects that have a high probability of full approval as PAERs result in significant sunk costs prior to finalizing a project's full business case and scope of work. A PAER's scope should be sufficiently well-defined to support a  $\pm 10\%$  ER-quality cost estimate endorsed by PMOD. PAERs may only be used for fixed-scope projects and do not apply to Master Appropriations. PAERs are developed by the Facilities Planning Department (FPD) in accordance with the *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs.*

## 4.0 TYPES OF EXPENDITURE REQUESTS

### 4.1 Fixed-Scope ERs

- 4.1.1 Fixed-scope ERs fund the cohesive scopes of discrete, stand-alone projects. A collection of related fixed scope ERs may relate to a Program. The scope of each fixed-scope project should be sufficiently well-defined to support a  $\pm 10\%$  ER-quality cost estimate endorsed by PMOD prior to ER funding approval. The life of a fixed-scope project typically extends from ERA to Expenditure Request Completion (ERC) or On-stream Date (OS).

### 4.2 Annual Appropriations

- 4.2.1 Annual Appropriations fund routine, repetitive scopes of work for a specified calendar year and are available for commitment only during the year for which they are made. Unless otherwise specified in the ER Brief, funds expire after one year and are no longer available for new commitments.
- 4.2.2 No fund release mechanism is necessary due to the projects' scopes and short execution durations. ER approval provides authorization to make commitments and incur expenditures for work performed within the scope described in the ER.

### 4.3 Master Appropriations

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- 4.3.1 Master Appropriations are typically executed by the proponent, except for Maintain Potential projects. They fund routine, repetitive scopes of work that are ongoing in nature, and for which the full scopes of which cannot be defined at the time the ER is approved. The scope of a Master Appropriation needs to be sufficiently defined to allow for the preparation of a preliminary list of the scope items planned to be executed or equipment to be purchased. This preliminary scope listing should support the level of funding requested and a Master Appropriation cost estimate endorsed by the Estimating Services Division, PMOD.
- 4.3.2 Examples of Master Appropriations include the Onshore and Offshore Maintain Potential Projects, and ERs for Computing, Research, and Drilling Equipment.
- 4.3.3 Reoccurring Master Appropriations are not to be considered as entitlements. The business case justifications and funding levels for reoccurring Master Appropriations are subject to annual revalidation by FPD and Corporate Staff during the development of the Business Plan.
- 4.3.4 Authorization to disburse funds is controlled by the preparation and approval of a release under the ER that identifies the equipment to be purchased or work to be performed.
- 4.3.5 Releases are prepared for equipment to be purchased or work to be performed during the period from ERA through ERC as specified in the Master Appropriation. A release must be completely approved prior to the expiration date of the releasing period, as specified in the ER. No release can be authorized after the Master Appropriation's release period has expired. Unless otherwise specified in the Expenditure Request Brief, a Master Appropriation's release period is one calendar year.
- 4.3.6 The life of a Master Appropriation may be extended by Project Change Requests (PCR) until all expenditures against related releases are complete or the ERC date of the Master Appropriation is reached, whichever is later.
- 4.3.7 No more than three (3) Master Appropriations covering the same kinds of scope should be active at the same time unless approved by the Controller. Proponents seeking an exception to this policy should prepare a letter to the Controller justifying the exception. The letter must be signed by the Admin Area Head and concurred by the Controller. Master Appropriations that have achieved Mechanical Completion (MCC) are not considered active for this purpose. Due to their unique nature and governance through separate GIs, Maintain Potential and BI-19 projects are excluded from this requirement.
- 4.3.8 Since BI-19 is an omnibus Master Appropriation for miscellaneous projects and purchases costing up to \$4,000,000, it represents an exception to the general requirement that the scopes of Master Appropriations be routine and repetitive in nature. In addition, the BI-19 Master Appropriation remains open until all releases are complete. For details on BI-19 refer to GI 20.620: Miscellaneous Projects & Purchases Master Appropriation (BI-19).

### 4.4 Capital or Finance Leases

- 4.4.1 A Capital or Finance Lease is a form of financing for the acquisition of a capital asset. A lease is classified as a Capital or Finance Lease if it transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

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- 4.4.2 The Accounting Policies & Procedures Division, Accounting Policies & Systems Department (AP&SD) determines whether a lease is Capital or Operating in nature per AIM 154: *Capital vs. Operating Lease Clarification when Saudi Aramco is the Lessee, section 6, Lease Classification*.
- 4.4.3 The Capital BI/ER for a Capital Lease is only a mechanism to approve the acquisition of a capital asset by the Capital Lease. Lease payments on a Capital Lease are typically funded by and reported in the proponent's Controllable Costs budget.
- 4.4.4 The value of the Capital BI/ER authorizing the Capital Lease should reflect the fair value (i.e., the market price) of the asset(s) proposed for acquisition by the Capital Lease. In addition, the BI/ER value should also include any Engineering costs incurred before funding approval as well any Project Management oversight and Change Order or other costs to be incurred after funding approval. Amounts for such costs need to be separately identified in the ER Brief and further explained in the ER Budget Item Supporting Information (BISI) and supported by a valid ER quality cost estimate.
- 4.4.5 The ER quality estimate for Capital or Finance Leases is issued by the Estimating Services Division, PMOD. It will be based on the value of the approved lease bidder, as endorsed by the Bid Review Team (BRT), based on technical and commercial evaluation of the bids, in addition to any other costs that may have been incurred and/or will be required which include but not limited to engineering, Project Management Team oversight, expenses, changes orders etc.
- 4.4.6 The requester of the ER cost estimate shall provide all supporting documents stipulated (as applicable) in section 9 Expenditure Request (ER) Estimate of SAEP – 25 Estimate Preparation Guidelines to PMOD to ensure all associated costs have been included in the issued cost estimate.
- 4.4.7 Bid solicitations for Capital Leases, including Build, Own, Operate & Transfer (BOOT) and Build, Own & Operate (BOO) projects, must include a simultaneous solicitation to directly purchase the equipment or facility as per GI 20.161: Rentals/Leases/Charters, Page 5, Paragraph 7.2.

## 5.0 SCOPE

The Scope of an ER is as follows:

- 5.1 A fixed-scope ER will include a description of the scope of work to be executed and all elements of cost (both capital and expense) expected to be incurred by the project. The scope of the ER should be based on an approved Project Proposal and be sufficiently well-defined to support a  $\pm 10\%$  ER-quality cost estimate from the Estimating Services Division, PMOD.
- 5.2 The ER will indicate both the Expenditure Request Approval (ERA) and the Expenditure Request Completion (ERC) dates.
- 5.3 The proponent, Project Management, FPD, and the project developer (if any) should ensure that the scope of work and funds requested include all costs directly related to the execution of the project.
- 5.4 ER briefs are developed by FPD in accordance with the Preparation Guidelines for Planning, Budget and Expenditure Request Briefs.

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5.5 Refer to 3.3 above for the scope of a Master Appropriation, and 2.2 above for the scope of a Prior Approval Expenditure Request (PAER).

## 6.0 ER AUTHORIZATION & FORMS

An approved ER provides authorization to make commitments and incur expenditures for projects within the scope described in the ER. Approval authorities for ERs are documented in the Management Guide, Section 4: *Approval Authority*.

Conditions may dictate, in exceptional circumstances, a project may be started prior to receipt of ER approval. In these instances, which are typically due to urgent operational requirements, written approval from the President & CEO to make commitments and/or incur expenditures prior to ER approval must be obtained by the proponent before making commitments and/or starting the project.

Projects and purchases that are capital in nature should be funded from the Capital Budgets and not charged against Controllable Costs for expediency and later transferred to an approved capital funding vehicle. Should this situation arise, written concurrence from the President & CEO, in addition to CPD and AP&SD's regular concurrence, may be requested prior to any cost transfers.

6.1 Any proposed changes in the scope or design of a project, including the cancellation of approved work, commitments, or expenditures, should be submitted for approval in an ER amending the initial authorization if the magnitude of the change meets requirements stated below (see also GI 20.520: Project Change Requests).

6.2 Procedures for amended appropriations are as follows. Subsequent Action ERs (SAERs) are developed by FPD in accordance with their manual Preparation Guidelines for Planning, Budget and Expenditure Request Briefs. SAERs must follow the approval requirements in the Management Guide, Section 4: Approval Authority. In the event that a cap on the approved amount is imposed by the Board/Excom, Management Committee, etc, approval must be obtained from the Approval Authority that set up the cap in conjunction with seeking the required SAER approvals per the Management Guide, Section 4: Approval Authority.

6.2.1 **Supplements:** A forecast overrun of the approved ER amount by more than 10% or \$100,000,000, whichever is less, arising due to unanticipated costs or construction difficulties within the approved scope and design requires a Supplement Subsequent Action Expenditure Request (SAER). A Supplement SAER should be submitted for approval promptly if an overrun in excess of these limits is forecasted. Approval requirements for cost overruns where a SAER is not required are reflected in the Management Guide, Section 4: Approval Authority.

Cost overrun letters requiring the approval of the President & CEO are to be routed to the Controller and Senior Vice President – Finance, Strategy & Development for review and endorsement prior to submission to the President & CEO for approval. Approvals for a cost overrun should be sought as soon as the overrun is known. The ER's construction agency needs to periodically monitor the ER's expenditures forecast and update it on a regular basis to reflect the project's current funding needs. The minimum requirements for cost overruns and Supplement SAERs are listed below.



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6.2.1.1 A cost overrun of an approved ER requires a letter signed by the correct approval authority as reflected in the Management Guide, Section 4: Approval Authority. The overrun letter does not increase the ER's total approved funding, which can only be increased via an approved SAER, but does allow additional commitments and expenditures to be made up to the ER's total approved funds plus the approved cost overrun amount. When an SAER is approved, any previously approved cost overrun letters automatically expire as the ER's revised total approved funding has accounted for such changes in the project's cost.

6.2.1.2 A forecast cost overrun of the approved ER funds for Development Drilling (BI-60) or Exploration (BI-33) by more than 2% requires a Supplement SAER, as per the Management Guide, Section 4: Approval Authority.

6.2.1.3 A forecast overrun of an approved Master Appropriation release amount by more than 10% or \$100,000,000, whichever is less, requires a Supplement Release ER. Overrun amounts greater than 10% for releases against expired Master ER's must be approved by new releases against open Master ER's. Cost overruns of less than 10% and not exceeding \$100,000,000 require no further approval action.

6.2.1.4 Projects originally authorized for \$4,000,000 or less (i.e. BI-19 projects) with expenditure overruns exceeding 10% require ER Supplements. The approval authority required is based on the revised total cost, including both capital and expense components, of the project. Under no circumstances may the total cost including any cost overruns for both the capital and expense components of a BI-19 project, exceed \$4,400,000. A fixed-scope BI would be required if costs escalate beyond \$4,400,000. Cost overruns of less than 10% require no further approval action.

6.2.2 **Redefinitions:** A Redefinition SAER is required when the total proposed scope changes, additions and deletions considered separately exceed 10% or \$100,000,000, whichever is less, of the ER's total approved funds. In those cases where a proposed Redefinition SAER causes a forecast reduction in ER funds, a Redefinition & Partial Cancellation SAER is required. In those cases where a proposed Redefinition necessitates an increase in funding, a Redefinition & Supplement SAER is required. Approval requirements for scope changes where a Redefinition SAER is not required are reflected in the Management Guide, Section 4: Approval Authority and are also discussed in GI 20.520: Project Change Requests.

6.2.2.1 For Master Appropriations, since the scopes of work are not fully defined at the time of ER approval, a larger scope change threshold of 25% **within** total approved funding is applicable. Once total proposed scope changes, with additions and deletions considered separately, exceed 25%, a Redefinition SAER is required.

6.2.2.2 A forecast change in scope of the approved ER funds for Development Drilling (BI-60) or Exploration (BI-33) by more than 2% of the ER value requires a Redefinition Supplement SAER, as per the Management Guide.

6.2.2.3 For individual Master Appropriation releases, when the total proposed scope changes, additions, and deletions considered separately, exceed 10% or \$100,000,000, whichever

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is less, of the original Master Appropriation release value, an ER Redefinition release is required.

6.2.2.3.1 Master Appropriation fund releases, excluding Maintain Potential Projects, more than three years old (after ERA of the release) may not be completely redefined. For any exceptions, Proponent must provide justification to the Controller's organization (CPD) for concurrence.

6.2.2.3.2 If the release period for the Master Appropriation has expired, the revised scope of work in the Redefinition fund release must be of the same project type and be located in the same geographic area. Any additional funding required for the fund release can only be obtained from the current open and sufficiently funded Master Appropriation ER covering the same project type.

6.2.2.3.3 Scope additions (new work) to releases for expired Master Appropriations are not permitted. Scope may not be expanded to utilize excess funds.

6.2.2.3.4 New work must be approved from an open Master Appropriation ER. A scope deletion from an approved fund release against an expired Master Appropriation does not reopen the closed Master Appropriation. However, a scope deletion from an approved fund release against an open Master Appropriation restores previously released funds for other releases.

6.2.3 **Partial Cancellations:** For projects with approved funds greater than \$100,000,000, Partial Cancellation SAERs are required when the forecasted cost underrun is greater than 10% of approved funds or exceeds \$100,000,000. For projects with approved funds up to \$100,000,000, Partial Cancellation SAERs are required when the forecasted cost underrun is greater than 10% of approved funds and exceeds \$10,000,000 within the approved project scope. A proposal for a Partial Cancellation SAER should be submitted when all major contracts have been awarded and no later than when the project achieves 80% construction completion. Cost underruns that are less than 10% and \$10,000,000 require no further approval action.

6.2.3.1 When the total spending forecast for all approved releases of an expired Master Appropriation underruns approved released funding by more than 10% and \$10,000,000, a Partial Cancellation SAER must be processed. A proposal for a Partial Cancellation SAER of an expired Master Appropriation should be submitted as soon as practicable and must be submitted prior to the project achieving Mechanical Completion (MCC). Reaching or passing the MCC date does not eliminate the requirement for a Partial Cancellation SAER. Partial Cancellation of an expired Master Appropriation does not reopen the Master Appropriation.

6.2.3.1.1 The individual releases which are the cause of the Partial Cancellation action also require partial or complete cancellation. This will allow the amount of the Partial Cancellation SAER to be determined accurately and the Master Appropriation to be closed in SAP after all remaining open releases are completed or closed.



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6.2.3.2 In the case of individual release underruns against open Master Appropriations, it is in the proponent's best interest to partially cancel excess funds from the release provided the amount is significant. The cancelled amount is restored to the Master Appropriation for other releases. Any additional releases must be in accordance with the intended scope of the Master Appropriation and meet essential business requirements.

6.2.4 **Cancellations:** A proposal to cancel an approved project requires a Cancellation SAER action. Expenditures incurred but rendered worthless due to the cancellation are shown in the revised estimate as project costs to be charged to expense account cost center 427-210 "Abandonment Expense – Projects", in accordance with Accounting Instruction 203: *Project Accounting – Work Breakdown Structure (WBS)*. Expenditures benefiting other open projects are transferred to those projects, as approved on the Cancellation SAER.

6.2.4.1 A proposal to cancel an approved fund release against a Master Appropriation requires a Cancellation release. Expenditures incurred but rendered worthless due to the cancellation are shown in the revised estimate as project costs to be charged to expense. The cancellation of a fund release pertaining to an expired Master Appropriation does not reopen the expired Master Appropriation. However, a cancellation of an approved fund release against an open Master Appropriation restores the canceled funds for other fund releases. For approval thresholds related to abandoned costs refer to the Management Guide, Section 4: Approval Authority.

## 7.0 SCOPE SPLITTING

- 7.1 The cohesive scope of a project costing more than \$4,000,000 must not be split into multiple BI-19 projects to circumvent the need for a fixed-scope stand-alone BI and the required related reviews and approval levels. In addition, unrelated scope items cannot be combined under one ER to make it eligible for ER funding.
- 7.2 Proposed scope additions to a project under execution should be added to the scope of the project either by an approved Project Change Request (PCR) or by a Redefinition SAER. The costs of such scope additions should be charged to the BI and should not be charged to BI-19, to Controllable Costs or to an Internal Order. There should not be multiple sources of funding for the same scope of work.
- 7.3 Required scope should not be deleted from a project to provide funding for scope additions. For example, in a program of related projects, scope relating to a particular project where funding is tight should not be deleted from the project and added to another project where more funding is available.

## 8.0 RESPONSIBILITIES FOR ER PREPARATION

- 8.1 The responsibility for initiating an ER for proposed BIs valued at more than \$4,000,000 rests with FPD. Responsibilities of various organizations concerned with ER preparation for these BIs are as follows:
  - 8.1.1 Proponent and Construction Agency prepares the project proposal and project execution plan, if required. The proponent and construction agency review the ER package prepared by FPD prior to Corporate Staff Review (CSR) and Management review.

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8.1.2 (FPD prepares the ER approval package including the ER Brief, BISI, justification, economic evaluation, charts, site plans, maps, etc. In addition, FPD coordinates the overall review CSR, reviews the format and overall quality of the ER, arranges corrections, coordinates recommended changes, review of the ER package by the proponent's Business or Service Line, prepares the ER approval package for the MC review and makes changes or supplies additional information as required by MC.

8.1.3 The Estimating Services Division, PMOD endorses the  $\pm 10\%$  ER-quality cost estimate (Saudi Aramco Form 56D) prepared by the construction agency as per SAEF-25, *Estimate Preparation Guidelines*.

8.1.4 The Capital Programs Division (CPD), FAD assists proponents and FPD in matters dealing with financial, accounting and budgetary policies and procedures, reviews the business case and validity of the proposed ER, and provides input to FPD as required. CPD reviews ER packages to ensure completeness and prepares and distributes the ER book to the Corporate Secretariat for Board of Directors/Excom review and approval.

8.1.5 The Portfolio Analysis & Decision Support Department (PA&DSD), Corporate Planning advises on the appropriate approach to use for project justification during early stages of development. PA&DSD also assists with investment evaluation and economic analyses and reviews and provides guidance on the financial models and the related economic assumptions.

PA&DSD is responsible for the Saudi Aramco Investment Evaluation Guidelines and is the ultimate arbiter on project economics issues.

8.1.6 The Capital Program Efficiency Department (CPED) ensures the ER package is consistent with the Capital Management System, and that the G3 Value Assurance review is complete.

8.2 The Proponent has the primary responsibility for initiating and processing Master Appropriation funding releases. The release will be developed using the SAP Master Appropriation release workflow system with the assistance of the assigned construction agency, as appropriate. Additional information regarding Maintain Potential Master Appropriation releases may be found in GI 20.720: *Maintain Potential Master Appropriations*. Additional information regarding BI-19 funding releases may be found in GI 20.620: *Miscellaneous Projects & Purchases Master Appropriation (BI-19)*.

8.2.1 All releases must be supported by a  $\pm 10\%$  ER-quality cost estimate of the work to be performed and must reference the total cost of the project for determination of the appropriate approval authority level.

8.2.2 PMOD-endorsed cost estimates are required for a Master Appropriation's original releases or subsequent action releases when the original release's funding amount or subsequent action release's revised funding amount, which includes prior approved funds, is at, or exceeds, the levels below:

8.2.2.1 Maintain Potential project cost estimates at or exceeding \$3,000,000 in value.

8.2.2.2 BI-19 project cost estimates at or exceeding \$2,000,000 in value.

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# SAUDI ARABIAN OIL COMPANY (Saudi Aramco)

## GENERAL INSTRUCTION MANUAL

ISSUING ORG. FINANCIAL ACCOUNTING DEPARTMENT

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8.2.2.3 All other Master Appropriation project cost estimates, valued at or exceeding \$1,000,000.

8.2.3 Master Appropriation fund releases are reviewed by the CPD for completeness of information, robustness of the business case justification, adherence to intended scope, availability of funds, approval authority limits as defined in Section 4 – *Approval Authority of the Management Guide* and in the Approval Authority Engine, adherence to financial policies, and proper accounting treatment of capital versus expense.

8.2.4 FPD's review is required for a Master Appropriation's original releases or subsequent action releases when the original release's funding amount or subsequent action release's revised funding amount is at, or exceeds, the levels below:

8.2.4.1 Onshore and Offshore Maintain Potential project cost estimates at or exceeding \$3,000,000 in value. Supplement funding releases that result in project costs at or beyond \$3,000,000 require FPD endorsement.

8.2.4.2 BI-19 project cost estimates at or exceeding \$2,000,000 in value. Supplement funding releases that result in project costs at or beyond \$2,000,000 require FPD endorsement.

8.2.4.3 Master Appropriation project cost estimates excluding BI-19 and Maintain Potential, valued at or more than \$1,000,000. Supplement funding releases that result in project costs at or beyond \$1,000,000 require FPD endorsement.

In addition in special cases, CPD may still require FPD's independent review of and advice regarding any release regardless of value.

## 9.0 COST ESTIMATES

Accurate, independent cost estimates are key pillars of project planning, cost control and accountability. Cost estimates establish baselines for the project cost at different stages of the project's development and are used for cost control, variance reporting, productivity analysis, cost trend analysis and control of construction progress. Cost estimates should be updated periodically in the project planning stages as the project's scope elements and their costs are identified and refined. Guidelines concerning the preparation and review of project cost estimates are reflected in SAEP-25, *Estimate Preparation Guidelines*, issued by PMOD.

9.1 **Business Case Estimates** are early stage cost estimates prepared during the Business Case Phase (Front End Loading [FEL] Stage 1) with an accuracy of  $\pm 50\%$ . Planning Briefs for Budget Items proposed for inclusion in the second and third years of the BP Capital Program must have Business Case Estimates.

9.2 **Budget Estimates** are prepared during the DBSP FEL Phase 2B based on the approved DBSP and supporting FEL-2 deliverables, after all main elements of the selected project alternative have been developed, major engineering decisions have been made and the overall project design basis has been established and fixed. Budget Estimates have an accuracy of  $\pm 30\%$ . Budget Briefs for Budget Items proposed for inclusion the annual Capital Budgets must have Budget Estimates. For projects not following the Capital Management System, a  $\pm 40\%$  Budget cost estimate shall be issued based on the approved DBSP.

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9.3 **Expenditure Request (ER) Estimates** are detailed estimates produced in support of Budget Items proposed for funding approval. ER Estimates are prepared during the FEL Stage 3 based on the approved Project Proposal package, supporting FEL-3 deliverable and contractor bid data as applicable. ER Estimates have an accuracy of  $\pm 10\%$  unless otherwise stated in the Brief and further explained in the BISI.

9.3.1 ER Estimates are required to support approval of an ER, PAER or an SAER by the Board of Directors, its Executive Committee, the President & CEO, or Corporate Management.

9.3.2 Estimating organizations must provide ER Estimates with sufficient detail to allow FPD to reconcile and explain differences between the ER funding for approval and the Capital Budget or BP cost estimate (when the ER is a BI) or the previously approved funding in the case of an SAER.

9.3.3 If a  $\pm 10\%$  ER Estimate is not available, the level of accuracy must be provided by PMOD (i.e. Study Estimate or Budget Estimate). This non-ER Quality estimate should be explicitly disclosed in the ER Brief and accepted by the MC. Such disclosure is particularly important if Board of Directors or Executive Committee approval is required as they are only provided with the ER Briefs and not the BISIs.

## 10.0 PLANT TRANSFERS & RETIREMENTS

An ER will include information pertaining to existing plant and/or equipment items to be used or retired to complete a proposed project.

10.1 Such items, termed Plant Transfers, may either be moved to another location or used in a manner different than its original service. The movement or retirement of previously capitalized assets should include the asset numbers of the equipment being moved or retired. AIM 206: *Form SA-630- Capital Assets Change Authorization*, and the Accounting Manual, Section 307: *Transfers*, describe the rules to be followed in recording transfers and disposal of capital assets.

10.2 The dollar net book value of plant transfers is shown on the detailed estimate of the ER as a memo amount excluded from the appropriation requested. The proponent is responsible for providing the asset numbers of the asset moved or retired asset, which shows the net book value of plant transfers in the ER Brief, to the Projects & Fixed Assets Accounting Division (P&FAAD), FAD.

10.3 When Saudi Aramco property having a total net book value of \$500,000 or more is to be abandoned, demolished, given away, or otherwise disposed of without financial consideration, a request for the required Board of Directors or Executive Committee approval for the proposed asset write-off must be included in the ER Package. The approval requirements for the retirement and disposal of Saudi Aramco property are documented in the Management Guide, Section 4: *Approval Authority*. To support these requests, the proponent must provide the property description, reason for proposed action, options available for disposal, net book value and asset number of the property as confirmed by P&FAAD.

10.4 Should a situation arise where assets planned to be retired or abandoned are retained by the proponent, refer to AIM201: *Projects Financial Close Out Process*.

## 11.0 REVIEW, APPROVAL & DISTRIBUTION

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ER packages are reviewed by management before approval to confirm that proposed projects are compatible with Saudi Aramco corporate values, objectives, policies and programs.

11.1 Standard processing steps are shown in GI 20.500-1.

11.2 Approval authorities are shown in the Management Guide, Section 4: *Approval Authority*.

11.3 Distribution of an approved ER with a value exceeding \$4,000,000 is performed by the Capital Programs Division (CPD).

11.4 Master Appropriation release work breakdown structures are assigned by the SAP workflow system with all documentation retained electronically within the workflow.

## 12.0 RELATED INSTRUCTIONS

GI 20.500-1 Supplement: Workflow for an Expenditure Request Approval Package is on Page 14. Other related General Instructions and Saudi Aramco manuals regarding ERs are listed below for convenient reference.

- a) Other General Instructions
  - GI 20.161 – *Rentals/Leases/Charters*
  - GI 20.520 – *Project Change Requests*
  - GI 20.620 – *Miscellaneous Projects & Purchases Master Appropriation (BI-19)*
  - GI 20.720 – *Maintain Potential Master Appropriations*
  - GI 21.201 – *Approval Authorities*
- b) Saudi Aramco Manuals
  - Accounting Manual, Capital Assets, Sections 300 – 310
  - AIM 154 – *Capital vs. Operating Lease Classification When Saudi Aramco is the Lessee*
  - AIM 201 – *Projects Financial Closeout Process*
  - AIM 203 – *Incomplete Construction*
  - AIM 206 – *Form SA-630 – Capital Assets Change Authorization*
  - Facilities Planning Department's *Preparation Guidelines for Planning, Budget and Expenditure Request Briefs*
  - Saudi Aramco Engineering Procedure (SAEP) 25 – *Estimate Preparation Guidelines*
  - Management Guide, Section 4: *Approval Authority*

APPROVED:

**MESHAAL F. AI-RUBAYA**, Manager  
Financial Accounting Department

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**SUPPLEMENT 20.500-1**

**STANDARD PROCESSING STEPS FOR APPROVAL OF AN ER PACKAGE**

1. FPD prepares the ER approval package (ER Brief, BISI, economic justification, charts, site plans, maps, etc.) as applicable. The proponent and construction agency provide information as required by FPD and review the completed ER package.
2. The Corporate Staff, consisting of FPD, CPD, Corporate Planning, PMOD, Project Management, Proponent, CPED and other staff groups as required based on the particulars of the proposed ER, review the ER package. All proposed revisions are reviewed by the proponent organization.
3. FPD is responsible for coordinating the reviewing each ER with the proponent's Business or Service Line before it is included in the MC's ER briefing materials. However, in the event that the cost estimate is not available or due to the late introduction of an ER, FPD should notify the proponent's Business or Service Line Head of the inclusion of the item in the MC's ER briefing materials.
4. FPD prepares the ER briefing materials for the MC.
5. After MC review of the ER briefing materials, FPD coordinates any necessary changes to the ER packages and provides any additional information required.
6. For ERs requiring Board/Excom approval, FPD provides CPD with the ER packages. CPD then prepares the ER Budget Book for the Corporate Secretariat, who distributes the ER briefing materials to the Board of Directors or Executive Committee for review and approval.
7. ERs requiring local approval are routed by FPD, through the SAP workflow, to the MC for review and approval by the President & CEO or to the Upstream or the Downstream Business Line Committee for review and approval by the Senior Vice President – Upstream or Downstream as appropriate.

For current authority levels please refer to the Management Guide, Section 4: Approval Authority.

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