

GENERAL INSTRUCTION MANUAL

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
12-18-2010REPLACES
08-03-08SUBJECT ENGINEERING WORK ORDER AUTHORIZATION FOR PRELIMINARY
ENGINEERING PREPARATION - SAUDI ARAMCO FORM SA-6891APPROVAL
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CONTENTS: This instruction contains the procedures for the use, preparation, and distribution of Form SA-6891, "Engineering Work Order Authorization for Project Proposal Preparation", and the accounting for funds approved annually by the Board of Directors for performing the preliminary engineering to develop an Expenditure Request (ER) Quality capital estimate. The text includes:

1. Glossary
2. General
3. Responsibility for Preparation
4. Approvals
5. Distribution
6. Close-Out
7. Reporting and Control
8. IT/SAP Projects
9. Department Responsibilities in regards to SAP

Attachment No 1 Form SA-6891: "Engineering Work Order Authorization for Project Proposal Preparation"

1 GLOSSARY:**1.1 ABBREVIATIONS**

APEF	BI Status "Approved Preliminary Engineering Funds"
APER	BI Status "Approved Expenditure Request"
AUC	Asset Under Construction (GL Account 2045001)
BI	Budget Item
CC	Cost Center
CEO	Chief Executive Officer
CLSD	PE Phases Status "Closed"
CPF&AD	Capital Programs Forecast & Analysis Division/FA&PAD
DBSP	Design Basis Scoping Paper
ED	Executive Director
EPP	Engineering Project Proposal
ER	Expenditure Request
ERA	Date of the Approved Expenditure Request
EWOA	Engineering Work Order Authorization
FA&PAD	Financial Analysis & Performance Advisory Department
FBLK	PE Phases Status "Financially Blocked"
FPD	Facilities Planning Department
GL	General Ledger
IT	Information Technology
JO	Job Order
NDE	Net Direct Expenditure
OAD	Operations Accounting Department
PAER	Prior Approval Expenditure Request
PE	Preliminary Engineering
PH	SAP Type Code for WBS Phase Level 3
PL	SAP Type Code for Preliminary Engineering Phase
P&FAAD	Projects & Fixed Assets Accounting Division/OAD
PM	Project Management

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PMOD Project Management Office Department
 REL PE Phases Status "Released"
 SA Saudi Aramco
 SAP Systems, Applications & Products
 SAPMT Saudi Aramco Project Management Team
 TECO PE Phases Status "Technically Completed"
 VP Vice President
 WBS Work Breakdown Structure
 XDEF PE status "Deferred"

1.2 SAUDI ARAMCO FORM

SA-6891 Engineering Work Order Authorization for Project Proposal Preparation.

2 GENERAL:**2.1 PRELIMINARY ENGINEERING**

Preliminary Engineering (PE) is defined in Saudi Aramco as the engineering activity until the date of Expenditure Request Approval (ERA). The project proposal and the Expenditure Request (ER) +/- 10% cost estimate are major products of the preliminary engineering effort. As noted in the approved Management Committee meeting minutes of February 25, 2003, the Information Technology (IT) Organization also participates in the PE budget process. IT will use PE funds for design scoping and development of the ER quality cost estimate.

IT will adhere to the established planning, releasing and utilization of PE funds, identified by this General Instruction procedure, and administered by Project Management Office Department (PMOD). Highlights of IT agreement have been incorporated into Section 8.

2.2 DESCRIPTION

Form SA-6891 is used to approve the release of PE funds, also known as Engineering Project Proposal (EPP) funds, for an engineering effort devoted to the development of a definitive project proposal for a Budget Item (BI) included in the current approved Spring and Fall Capital/Non-Capital Programs and Budgets respectively. Approval for the release of EPP Funds shall be in accordance with Section 4 below. A sample Form SA-6891 is provided in Attachment 1 to this General Instruction.

2.3 FUNDING

EPP Funds are appropriated annually by the Board of Directors at the time of approval of the Business Plan. This appropriation is valid for a one (1) release year period, from the Spring Board approval of the PE funding Budget through a week prior to the next Spring Board approval date. Unreleased funds expire at the end of the one (1) year release period. Expenditures of released funds may continue during subsequent years. Funds released but not utilized may not be reallocated to another project after the expiration of the one (1) year release period.

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3 of 10**2.4 BUDGETING AND RELEASE OF FUNDS**

PMOD is responsible for budgeting and releasing the expenditures for PE funds. Preliminary Engineering funds are released by the signature of the VP/ED PM, the Senior Vice President of Engineering & Project Management or the President & CEO per Section 4 below. If a Design Basis Scoping Paper (DBSP) or relevant IT "project preparation" document is being prepared for a budget item, it must be approved before EPP funds can be released. However, this requirement may be waived by the above funding approval authorities. The PE funds approved by the Board may not be adjusted, regardless of any updated estimate for the project. If additional funds are required to continue with PE effort, then it can be requested from contingency which is administered by PMOD.

2.5 REVISIONS

If any of the following situations occur, a new Form SA-6891 shall be prepared with information on what was previously approved and expended and submitted subject to the same approval as shown in Section 4:

- If the project requires additional funds.
- If the project undergoes a significant change to the scope of work or ER approval dates.
- Re-open closed WBS to continue with PE effort and accept PE expenditure per 2.6 below.
- If Project scope of an approved BI (per section 2.2 above) is transferred to one or more BI's the PE fund can be reallocated based on appropriate approval.

2.6 RE-OPEN CLOSED WBS TO ACCEPT PE EXPENDITURE.

In exceptional situations where previous Engineering work is still valid even though it was Deferred by more than two (2) years; the WBS status could be re-opened with proper approval per section 4 below.

2.7 EXCLUSIONS

Preliminary funds may not be used for the purchase of materials or project construction.

3 RESPONSIBILITY FOR PREPARATION:**3.1 ITEMIZED EXPENDITURES**

The cost engineer of SAPMT or the IT representative is responsible for preparing Saudi Aramco form SA-6891 and for obtaining the required approval. Expenditures shall be itemized as follows:

Item	Description
1.	Project Proposal Authorized Expenditure
2.	Detailed Engineering Authorized Expenditure up to ER Approval only.
3.	Material Specifications
4.	Other Authorized Expenditures: Geotechnical Services

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The items listed above do not represent the phases that are used for project expenditures. The items mentioned are used to broadly segregate the expenditures for management's approval.

3.2 DEFINITION OF EXPENDITURES

The items in 3.1 include the following expenditures:

3.2.1 PROJECT PROPOSAL AUTHORIZED EXPENDITURE

Expenditures necessary to prepare and obtain approval of a project proposal, preparation of the Expenditure Request cost estimate, contract bid packages and other preliminary engineering activities as appropriate.

3.2.2. DETAILED ENGINEERING AUTHORIZED EXPENDITURE

Expenditures necessary for detailed engineering between the completion project proposal and the date of the ER approval. In this situation, the Cost Engineer shall open any available phase under 010 or 020 to collect these costs. The organization of phase numbers and the use of phase numbers are discussed in the PM Cost & Scheduling Manual.

3.2.3 MATERIAL SPECIFICATIONS

Expenditures related to preparing material specifications, purchase requisitions and the preparation of the Contracting Bid Package, as required.

3.2.4 OTHER AUTHORIZED EXPENDITURES

Expenditures for other early project development work, e.g., soil borings, route surveys, IT/SAP design/ blueprinting, etc. Note: Blueprinting is defined as a phase of IT project development that includes definition of project scope, definition of general business requirements, definition of system architecture, development of the ER package and ER quality capital cost estimate.

3.3 PHASES

The project maintainer (SAPMT) will set up in SAP, applicable phases in accordance with the PM Cost & Scheduling Manual. If a BI is approved for Expenditure Request funding, PM will use the WBS and add phases as required for the project execution phase of the work.

NOTE- Budget amounts are maintained in SAP for the Project and Job(s)" (i.e. WBS Level 1 and Level 2) but not for phases. CPF&AD controls budget data entry for the BI WBS Level. P&FAAD inputs budget data for the "Job (s)" WBS Level 2. The SAP system requires CPF&AD to input an amount at the BI WBS level before P&FAAD can enter the PE amount on JO WBS Level 2.

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5 of 10**3.3.1 PHASE RELEASE**

Upon approval of the EPP (SA-6891), P&FAAD will change the project status to APEF (see Section 6.1.3) and will set status of the phases under the Project to "REL" or release phase status to allow expenditures to be posted. The costs will accumulate in the phases and then settle (each month) into the AUC GL account 2045001. Specifically, the phases except for expense phases 007 & 077 will settle directly to the related Cost Center or manually via clearance phase "999" for expense work phase 007.

4 APPROVALS:

The following positions have the authority to approve the opening, revision, closing, or cancellation of Engineering Proposed Project Work Orders up to the amount of the annual appropriation approved by the Board of Directors.

President and CEO	- Full Authority
Senior VP, Engineering & Project Management	- Up to 3% Total Capital Program
VP/ED, Project Management	- Up to 3% Total Capital Program

Total Capital Program is defined in GI 20.031 as follows:

The Capital Program is the overall plan for capital investment during the Business Plan cycle and consists of the aggregate of facilities, additions and improvements required to accomplish Business Line strategic imperatives.

5 DISTRIBUTION:

After obtaining proper approvals, the originator distributes the Form SA-6891 as follows:

P&FAAD	- Original
Originator	- 1st Copy
PM Proponent Department	- 2nd Copy
FA&PAD	- 3rd Copy
PMOD	- 4th Copy

6 CLOSE-OUT:**6.1 CLOSING LETTER**

The originator is responsible for closing out an EPP when the future of the project has been determined. P&FAAD is advised by a letter indicating the distribution of EPP expenditures (see sections 7.4 - 7.6) to Jobs and Phases within the BI and/or Expense. The letter is signed by the appropriate approval authority as follows:

6.1.1 PROJECT NOT APPROVED OR ABANDONED

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The original/delegated approval authority is responsible for requesting P&FAAD to transfer the cost to expense Cost Center(s). For the projects that are not approved, P&FAAD will transfer the costs via journal entry or reposting method, using the original phase and original cost element as follows:

- For Project Management executed projects, transfer costs to abandoned Engineering expense CC 762911 with approval per Section 4 above.
- For IT/SAP projects executed by IT, post the costs to an IT "Net Direct Expenditure" (NDE) CC as directed/approved by the VP/ED IT. See section 7.4 "Accounting for Projects Not Approved or Deferred More Than 2 Years."

6.1.2 PROJECT PARTIALLY APPROVED

The original/delegated approval authority is responsible for requesting P&FAAD to dispose of costs for projects partially approved. P&FAAD is to transfer the abandoned portion of the costs to abandoned engineering expense as indicated in section 6.1.1 above.

6.1.3 PROJECT APPROVED

Upon ER or PAER approval, CPF&AD will set the BI status of the project in SAP from APEF to PAER or APER and notify P&FAAD of project approval by e-mail or Facsimile. Upon notification of project approval, P&FAAD will set PE phase status to "TECO" (technically complete) in the SAP system. The Type Code for preliminary engineering WBS phases will remain as "PL" so as to historically report preliminary engineering cost. All other phases added/created after "ER" approval will have a Type Code of "PH". P&FAAD will maintain the PE phase's status as "TECO" until they have been notified by SAPMT that all preliminary engineering costs have been booked to the project accounts. P&FAAD then will close the PE phases as "CLSD".

6.1.4 PROJECTS DEFERRED LESS THAN SIX MONTHS

Project Management Teams do not need to take any action for projects that are deferred less than six months. When the BI is approved SAPMT should follow the instructions indicated in sections 6.1.2 or 6.1.3 above.

6.1.5 PROJECTS DEFERRED MORE THAN SIX MONTHS BUT LESS THAN TWO YEARS

6.1.5.1 The project WBS account should remain open only if the PE effort is likely to resume. The remaining unspent PE funds shall remain with the project until the disposition of the BI is identified. The expended funds will remain in the WBS Asset AUC balance (GL account 2045001).

6.1.5.2 While the project is inactive, FPD will set the Project Definition WBS Level 1 user status to "XDEF". SAPMT will notify P&FAAD that a project has been deferred and request to set the phase status to TECO, including Job Order WBS Level 2 or CLSD. This step is to ensure that the project incurs no mischarges or commitments while the WBS is in "deferred status".

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6.1.5.3 Prior to reactivating the PE effort, SAPMT will ensure that sufficient PE funds are available for the remainder of the project proposal effort. If additional funds are required prior to reactivating the project proposal effort, SAPMT will secure approval of additional preliminary engineering funding using Form SA-6891.

6.1.5.4 Upon reactivating the PE effort, the Cost Engineer determines any abandoned engineering cost included in the project and requests approval for the transfer of the cost to the appropriate abandoned engineering expense CC as indicated in section 6.1.1 above.

6.1.6 PROJECTS DEFERRED MORE THAN TWO YEARS

The cost engineer shall ensure that all expenditures have been booked to the project PE phases. These charges are then transferred to the appropriate abandoned engineering expense CC as stated in section 7.4 below and in section 6.1.1 above.

6.1.7 PROJECTS DEFERRED MORE THAN TWO YEARS – Exception

In rare situations where earlier Engineering work is still valid and the PMT wants to Charge new work to the previously used WBS; for approval refer to section 4 above.

7 REPORTING AND CONTROL:**7.1 PROJECT DEFINITION**

BI or Project definition numbers are created and assigned by FPD according to the WBS Coding / "Saudi Aramco Project Numbering Scheme" (refer to GI 216.600).

7.2 ACCOUNT

Project costs settle to AUC GL account 2045001. Upon project approval or non-approval, the final disposition of costs will be to an asset or a CC or a combination of both.

7.3 REPORTING

A summary report of PE projects may be obtained from SAP system (client PRC). Display or print the report by transaction ZP0188 and selecting report variant ZP_AR271 PE JO, "AR 271 Prelim Eng Jobs" and submitting a run request.

7.4 ACCOUNTING FOR PROJECTS NOT APPROVED OR DEFERRED MORE THAN 2 YEARS

- Engineering/Construction Projects:
Expenditures for Engineering/Construction Projects or non-IT/SAP executed projects that are not approved or deferred more than two years will be charged using original phase and cost element to abandoned engineering expense CC, 762911 with approval in accordance to section 4 above. P&FAAD will transfer the costs via a journal entry. This CC, 762911, closes into account 7988501 "Operational Investment Overhead". For exception to this rule refer to section 2.5 & 2.6 above.

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- IT/SAP Projects:

Expenditures for IT/SAP projects executed by IT that are not approved or deferred more than two years will be charged against IT Net Direct Expenditure (NDE) CC designated by IT using the original phase and original cost element. P&FAAD will transfer the costs using a journal entry in the manner stated in accordance with section 6.1.1 above.

7.5 ACCOUNTING FOR APPROVED OR PARTIALLY APPROVED PROJECTS

Expenditures for projects that are subsequently approved will accumulate or settle to AUC GL account 2045001 until final settlement to a fixed asset or expense or combination of both. CPF&AD will notify P&FAAD that the project is approved. P&FAAD will set the PE phases to TECO to allow for outstanding or remaining PE commitments/costs to be booked to the preliminary engineering project account. P&FAAD will remove the unblock status on any non-PE phases as instructed by PM.

Note. Regarding IT/SAP projects (concerning computer software/systems), if the total project/purchase cost qualifies for capitalization; preliminary engineering costs shall be considered as part of software application development cost and shall be considered as capital for the purpose of accounting clearance. Refer to GI 202.320, Sections 2 and 3.

For a partially approved project, the portion of PE expenditures not approved (i.e. abandoned) will be transferred to the PM abandoned engineering expense CC with the VP/ED Project Management approval or to the appropriate IT/SAP NDE account with the approval of the VP/ED IT. See section 7.4 above for the account disposition and write-off vehicle.

7.6 PRELIMINARY ENGINEERING SPENDING LIMITATION

7.6.1 The PE expenditures and/or commitments for an individual authorization should not exceed the amount approved on the Form SA-6891. In the event additional funds are required then a supplemental Form SA-6891 should be prepared and approved (refer to section 2.5 above)

7.6.2 PMOD is required to ensure that the total releases (sum of all PE funds) do not exceed the amount appropriated by the Board of Directors.

8 IT/SAP PROJECTS**8.1 IT PARTICIPATION IN THE PRELIMINARY ENGINEERING FUNDING PROCESS**

Through advisement to the Management Committee by the CEO and upon agreement signed by IT, FA&PAD and PMOD; IT will participate in the Preliminary Engineering Process. Highlights of the agreement include:

- IT will adhere to established PE procedures for planning, releasing and utilizing PE funds.
- Expended funds written-off as abandoned engineering as a result of the design/blueprinting effort will be charged against an IT NDE CC.

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Special procedures applicable to IT/SAP PE projects include use of "blueprinting" documentation in lieu of a Project Proposal document.

9 Department Responsibilities in regards to SAPSaudi Aramco Project Management Team

- Setting up project phases (Sections 3.2 and 3.3).

Capital Programs Forecast & Analysis Division

- Input budget information at the BI Level 1 (Section 3.3)
- Changing BI Status to APER (Section 6.1.3)

Project & Fixed Asset Accounting Division

- Input budget information at the WBS Level 2 (Section 3.3)
- Changing the BI status to APEF (Section 3.3.1)
- Removing the financial block or setting financial block (status REL, TECO, FBLK or CLSD),(Sections 3.3.1, 6.1.3, 6.1.5.2 & 7.5)
- Preparing the Journal Entry to transfer cost of PE projects not approved to abandoned engineering or SCC NDE expense CC. (Section 7.4)
- Creating the financial rules for the phases settlement to WBS AUC, and Fixed Asset (as well as application of overhead), (Sections 3.3.1 & 7.5)

Approved: Original Approved by R.A. Krygsman

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