



**Financial Statements for the
Year Ended December 31, 2000 and the
Period from May 2, 1998 to December 31, 1999**

	<u>Page</u>
Independent Auditors' Report	F – 2
Balance Sheets	F – 3
Statements of Income	F – 4
Statements of Cash Flows	F – 5
Statements of Changes in Shareholder's Equity	F – 6
Notes to the Financial Statements	F – 7

Saudi Telecom Company
(a Saudi Joint Stock Company)
Balance Sheets as of December 31, 2000 and 1999
(Saudi Riyals in thousands, except per share amounts)



TO: THE BOARD OF DIRECTORS OF SAUDI TELECOM COMPANY

We have audited the accompanying balance sheet of SAUDI TELECOM COMPANY (a Saudi Joint Stock Company wholly owned by the Government of Saudi Arabia and formed pursuant to Royal Decree No. M/35), as of December 31, 2000 and the related statements of income, changes in shareholder's equity and cash flows for the year then ended and the notes from 1 to 17 which are an integral part of these financial statements which were prepared by the management in accordance with Article (123) of the Companies Regulation and presented to us together with all the information and explanations which we requested. We express our opinion on these financial statements based on our audit and the information and explanations we obtained which we considered necessary for the purposes of our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAUDI TELECOM COMPANY as of December 31, 2000 and the results of its operations and its cash flows for the year then ended based on the presentation and disclosure of the information included in the financial statements and in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia as summarized in Note 2.

We are also of the opinion that the preparation and presentation of the above financial statements comply with the Commercial Code and the Company's by-laws and are in agreement with the accounting records which are computerized in accordance with the related commercial books regulations.

We draw attention to the fact, as more fully discussed in Note 2g to the financial statements, that pursuant to the aforementioned Royal Decree, property, plant and equipment in the amount of approximately SR 12.8 billion as of May 2, 1998 were transferred from the Government to the Company based on the approval by the parties concerned. Such assets have been reported at depreciated current replacement value, as determined by an independent party, in the absence of readily ascertainable historical cost data. In addition, substantially all land transferred from the Government as of May 2, 1998 aggregating approximately SR 2.3 billion, has been reported on the books based on an independent appraised market value, due to the unavailability of historical cost information as maintained by the Government.

Arthur Andersen & Co.

Arfan K. Ayass
License No. 98

Date: 21 Shawal 1422H (January 5, 2002)
Riyadh, Saudi Arabia

Saudi Telecom Company
(a Saudi Joint Stock Company)
Balance Sheets as of December 31, 2000 and 1999
(Saudi Riyals in thousands, except per share amounts)



<u>Assets</u>	<u>Notes</u>	<u>2000</u>	<u>1999</u>
Cash and cash equivalents	3	1,133,215	1,904,378
Accounts receivable, net	4	4,956,719	4,020,915
Inventories, net		364,640	226,179
Prepayments and other current assets		<u>52,921</u>	<u>89,202</u>
Total current assets		6,507,495	6,240,674
Property, plant and equipment, net	5	27,637,643	24,289,611
Investment accounted for under the equity method	6	547,903	498,199
Other investments	7	163,309	182,021
Other non-current assets	3	<u>422,640</u>	<u>29,721</u>
Total assets		<u>35,278,990</u>	<u>31,240,226</u>
<u>Liabilities and shareholder's equity</u>			
Accounts payable	8	6,672,256	8,117,955
Accrued expenses and other payables		3,674,342	2,871,479
Deferred revenue - current		917,799	747,483
Short-term borrowings	9	<u>1,434,783</u>	<u>1,432,588</u>
Total current liabilities		12,699,180	13,169,505
Deferred revenue		1,869,751	1,391,917
Long-term borrowings	9	1,521,467	1,576,053
Employees' end of service benefits	10	1,285,416	1,122,127
Other	9	<u>-</u>	<u>39,614</u>
Total liabilities		<u>17,375,814</u>	<u>17,299,216</u>
Commitments and contingencies	13	-	-
Shareholder's equity			
Common shares: par value SR 50 per share, authorized, issued and outstanding shares: 240,000,000		12,000,000	12,000,000
Retained earnings		5,086,416	1,528,830
Unrealized gain on other investments	7	9,293	-
Legal reserve		<u>807,467</u>	<u>412,180</u>
Total shareholder's equity	16	<u>17,903,176</u>	<u>13,941,010</u>
Total liabilities and shareholder's equity		<u>35,278,990</u>	<u>31,240,226</u>

The accompanying notes 1 to 17 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)



**Statements of Income for the Year Ended December 31, 2000 and the Period
from May 2, 1998 to December 31, 1999**
(Saudi Riyals in thousands)

	<u>Notes</u>	<u>2000</u> <u>(12 months)</u>	<u>1999</u> <u>(20 months)</u>
Operating Revenues			
Wireline		11,855,030	17,193,752
Wireless		<u>5,075,307</u>	<u>5,977,253</u>
Total operating revenues		<u>16,930,337</u>	<u>23,171,005</u>
Operating Expenses			
Government charges	15	3,345,110	4,440,731
Access charges		1,953,621	3,641,180
Employee costs		2,918,998	4,246,189
Depreciation and amortization	5	2,399,444	2,854,354
General and administrative expenses	12	1,493,572	2,307,957
Repairs and maintenance		<u>961,717</u>	<u>1,636,027</u>
Total operating expenses		<u>13,072,462</u>	<u>19,126,438</u>
Operating Income		<u>3,857,875</u>	<u>4,044,567</u>
Other Income and Expenses			
Commission income	3,7	93,690	83,264
Earnings of equity investment	6	64,484	118,504
Other, net	7	<u>35,493</u>	<u>17,381</u>
Total other income and expenses		<u>193,667</u>	<u>219,149</u>
Net Income before Zakat		4,051,542	4,263,716
Provision for Zakat	11	<u>(98,669)</u>	<u>(141,916)</u>
Net Income		<u>3,952,873</u>	<u>4,121,800</u>

The accompanying notes 1 to 17 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)



**Statements of Cash Flows for the Year Ended December 31, 2000 and the Period
from May 2, 1998 to December 31, 1999**
(Saudi Riyals in thousands)

	<u>2000</u> <u>(12 months)</u>	<u>1999</u> <u>(20 months)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,952,873	4,121,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized loss on other investments	11,812	59,813
Depreciation and amortization	2,399,444	2,854,354
Provision for doubtful accounts	746,553	1,391,570
Gain on disposals of property, plant and equipment	(14,853)	(15,854)
Undistributed earnings of equity investment	(49,704)	(79,082)
Changes in:		
Accounts receivable	(1,682,357)	(3,308,357)
Inventories	(138,461)	148,799
Prepayments and other current assets	36,281	310,030
Other non-current assets	(399,446)	(33,510)
Accounts payable	(1,443,954)	4,671,171
Accrued expenses and other payables	802,863	(1,094,773)
Deferred revenue	648,150	1,636,708
Employees' end of service benefits	163,289	386,049
Net cash provided by operating activities	<u>5,032,490</u>	<u>11,048,718</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(5,742,249)	(12,009,773)
Proceeds from sale of property, plant and equipment	16,153	22,739
Capital distributions/(payments) related to other investments	16,193	(13,703)
Net cash used for investing activities	<u>(5,709,903)</u>	<u>(12,000,737)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	(300,000)	-
Proceeds from short-term borrowings	400,000	600,000
Repayments of long-term borrowings	(1,043,750)	-
Proceeds from long-term borrowings	850,000	2,256,397
Net cash (used for)/ provided by financing activities	<u>(93,750)</u>	<u>2,856,397</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(771,163)	1,904,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,904,378	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>1,133,215</u>	<u>1,904,378</u>

Supplemental Schedule of Non-cash Investing and Financing Activities:

Transfer of shares for net assets on incorporation (Note 1)	<u>12,000,000</u>
Government bonds in exchange for accounts receivable (Note 7)	<u>54,746</u>
Settlement of Government receivable with dividend (Note 16)	<u>2,180,790</u>

The accompanying notes 1 to 17 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)



**Statements of Changes in Shareholder's Equity for the Year Ended December 31, 2000 and the Period from
 May 2, 1998 to December 31, 1999**
(Saudi Riyals in thousands)

	<u>Common Shares</u>	<u>Retained Earnings</u>	<u>Unrealized Gain on Other Investments</u>	<u>Legal Reserve</u>	<u>Total Shareholder's Equity</u>
Balance at May 2, 1998	12,000,000	-	-	-	12,000,000
Net income	-	4,121,800	-	-	4,121,800
Dividend declared	-	(2,180,790)	-	-	(2,180,790)
Transfer to legal reserve	-	(412,180)	-	412,180	-
Balance at December 31, 1999	12,000,000	1,528,830	-	412,180	13,941,010
Net income	-	3,952,873	-	-	3,952,873
Transfer to legal reserve	-	(395,287)	-	395,287	-
Unrealized gain on investment	-	-	9,293	-	9,293
Balance at December 31, 2000	12,000,000	5,086,416	9,293	807,467	17,903,176

The accompanying notes 1 to 17 form an integral part of these financial statements.

1 DESCRIPTION OF BUSINESS, BACKGROUND AND BASIS OF PRESENTATION

a) Description of business

Saudi Telecom Company (the “Company”) is the sole entity engaged in the provision of telecommunications services in the Kingdom of Saudi Arabia (the “Kingdom”). The Company provides a range of telecommunications services including fixed local, national and international telephone services, telex, telegraph, data transmission, leased lines, public telephones and public network services. The Company also provides mobile and radio paging services in the Kingdom.

b) Corporate status

Saudi Telecom Company was established by Royal Decree No. M/ 35, dated April 21, 1998 (24 Dhul Hujja 1418, based on the Hijra calendar system, which is the calendar used in the Kingdom, hereinafter referred to as “H”) as a Saudi Joint Stock Company, in accordance with the Council of Ministers Resolution No. 213, dated April 20, 1998 (23 Dhul Hujja 1418H) approving its Articles of Association (the “Articles”). The Company is wholly owned by the Government of the Kingdom of Saudi Arabia (the “Government”). A regulatory body, Saudi Telecom Commission, was formed on May 28, 2001 (5 Rabi Awal 1422H) to regulate the telecommunications industry within the Kingdom.

The Company received its commercial registration number 101050269 as a Saudi Joint Stock Company on June 29, 1998 (4 Rabi Awal 1419H). The Company is not allowed to sell its shares to the public until it receives appropriate authorization.

Prior to May 2, 1998 (6 Muharram 1419H), the provision of public telecommunications services in the Kingdom was operated by the telegraph and telephone division of the MoPTT (hereinafter referred to as “Telecom Division”). Pursuant to Royal Decree No. M/35, the Telecom Division, with its various components and technical and administrative facilities was transferred to the Company. The Company commenced its operations as Kingdom-wide provider of telecommunications services on May 2, 1998 with the initial term of the Company being fifty years from the date of the Royal Decree. This term may be extended at the discretion of the General Assembly.

c) Net assets at incorporation

On incorporation, the net assets of the Telecom Division were exchanged for the shares in the Company. The net assets at the date of transfer were recorded using accounting policies that are consistent with those used to prepare these financial statements of the Company except as discussed in note 2c relating to non-refundable up-front fees.

Notes to the Financial Statements for the Year Ended December 31, 2000 and the Period from May 2, 1998 to December 31, 1999

	<u>Net assets transferred</u>
	SR
	000's
<i>Assets transferred:</i>	
Cash and cash equivalents	-
Accounts receivable, net	2,142,266
Government receivable	2,180,790
Inventories, net	374,978
Prepayments and other current assets	399,232
Property, plant and equipment, net	15,137,288
Investment accounted for under the equity method	419,117
Other investments	189,993
Total assets	<u>20,843,664</u>
<i>Liabilities assumed:</i>	
Accounts payable	3,638,642
Accrued expenses and other payables	3,966,252
Deferred revenue	502,692
Employees' termination benefits	736,078
Total liabilities	<u>8,843,664</u>

Net assets transferred represented by the issuance of 240,000,000 shares at par value

12,000,000

As intended by Royal Decree, beneficial ownership of assets had been transferred to the Company as of May 2, 1998, although in certain instances (principally land), transfer of legal ownership is in progress.

d) Period of the financial statements

The Company has fixed its financial year to begin on January 1 and end on December 31. According to the Company's Articles, however, the first financial statements of the Company were to be prepared for the period from May 2, 1998 to December 31, 1999.

e) Preparation of the financial statements

The financial statements have been prepared in accordance with regulations and standards promulgated by the Saudi Organization for Certified Public Accountants, which functions under the auspices of the Ministry of Commerce.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are summarized as follows:

a) Accounting convention

The financial statements have been prepared under the historical cost convention, with the exception of property, plant and equipment transferred from the Telecom Division, as explained in note g below.

b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Revenue recognition

Revenue is recognized when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon minutes of traffic processed. Charges billed in advance are deferred and recognized over the period the services are rendered. Unbilled revenue is recognized in the period to which it relates. Prior to May 2, 1998 (date of incorporation), non-refundable up-front fees received from subscribers were recognized as income when received. Effective May 2, 1998 non-refundable up-front activation fees received from subscribers are deferred and recognized over the estimated service lives of the subscribers.

d) Financial instruments

Financial instruments include cash, investments, accounts receivable and payable, other receivables and payables and short and long-term borrowings. The Company does not currently use financial instruments that reduce exposure to fluctuations in foreign currency exchange and commission rates.

e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and all highly liquid investments with a maturity of 90 days or less when purchased. Cash and cash equivalents are stated at cost.

f) Inventories

Inventories, which are principally cables and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares, which cannot be removed from the exchange, are recorded within property, plant and equipment. Inventory items held by third parties responsible for upgrading and expanding the network are recorded within 'capital work in progress'.

g) Property, plant and equipment and depreciation

Prior to May 2, 1998, the Telecom Division did not maintain sufficiently detailed historical information to record property, plant and equipment based on the historical cost method. Consequently all property, plant and equipment transferred by the Telecom Division on May 2, 1998 has been included in these financial statements at a valuation which was performed by the Company with the assistance of independent international and local valuation experts. The principal bases used for valuation are as follows:

- | | |
|----------------------------------|------------------------------|
| • Land | Appraised value |
| • Buildings, plant and equipment | Depreciated replacement cost |

Notes to the Financial Statements for the Year Ended December 31, 2000 and the Period from May 2, 1998 to December 31, 1999

Property, plant and equipment acquired by the Company after May 2, 1998 is recorded at historical cost.

Cost or valuation of the network comprises all expenditures up to the customer connection point. It also includes contractors' charges, materials and direct labor and commission costs, if appropriate, up to the date the relevant assets are placed in service. Property, plant and equipment excluding land is depreciated on a straight line basis over the following estimated useful lives:

	Years
Buildings	22 – 30
Telecommunications plant and equipment	5 – 25
Other assets	5

Agreements entered into for the indefeasible right to use capacity are accounted for as capital leases if the criteria are met and amortized over the estimated useful lives of the associated assets or the lease periods whichever is shorter. If the capital lease criteria are not met, they are accounted for as operating leases.

Upon sale or disposal of property, plant and equipment, the gain or loss determined by the difference between the proceeds and the net carrying amount of the asset is recognized in the statements of income.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their recoverable amount may be permanently less than their carrying amount. If the sum of the expected future undiscounted cash flows from these assets is less than the carrying amount of the assets, a loss is recognized for the difference between the fair value and carrying amount of the assets. Fair value is determined on the basis of discounted cash flows or by reference to the replacement cost of used equipment, the cost of alternative technologies or from recent transactions for similar assets, or from market prices. The loss is recognized in the period in which the impairment occurred.

Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.

h) Investment accounted for under the equity method

The Company accounts for investments in common stock in which it has at least 20% ownership under the equity method. Under the equity method, the Company recognizes in income its relative share of the investee's results of operations and adjusts the carrying amount of its investment to reflect its pro rata share of the net assets of the investee.

i) Other investments

Available for sale marketable securities are carried at fair value with unrealized holding gains and losses recorded as a separate component of shareholder's equity. Holding losses are charged to income and the cost basis of the investment decreased if it is determined by management that such losses are of an other than temporary nature. When available for sale securities are sold, the resulting gain or loss is recognized in income and previous unrealized holding gains and losses on such securities are reversed.

Notes to the Financial Statements for the Year Ended December 31, 2000 and the Period from May 2, 1998 to December 31, 1999

Investments in Government bonds are reported at cost and adjusted for amortization of premiums and accretion of discounts, if any. Provisions are made for any permanent diminution in value.

All other investments are stated at cost less reductions for declines in fair value below cost that are deemed to be other than temporary in nature.

j) Zakat

The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax. The Company currently accrues and expenses its Zakat liability. Adjustments arising from final Zakat assessments are recorded in the year in which such assessments are made.

k) Employees' end of service benefits

End of service termination benefits are payable as a lump sum to all employees employed under the terms and conditions of Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom.

l) Foreign currency transactions

The Company maintains its financial records in Saudi Arabian Riyals (SR), the Company's functional currency, with transactions being recorded at the appropriate rate of exchange prevailing at the date of the transaction. Foreign currency receivables, payables and other monetary assets and liabilities are translated using rates of exchange prevailing at the balance sheet date. Exchange gains and losses arising on the settlement of foreign currency transactions and all unrealized gains and losses on foreign currency denominated monetary balances are recorded within the statements of income.

m) Government charges

Government charges are the costs incurred for the right to operate the Kingdom's telecommunications services, including use of the frequency spectrum for wireless services. Government charges are accrued in the relevant periods.

n) Access charges

Access charges represent the costs to connect to foreign carriers' networks for calls made by the Company's subscribers. Access charges are recognized in the periods of relevant calls.

3 CASH AND CASH EQUIVALENTS

Surplus cash arising during the year is invested in short-term deposit accounts. The average rate of commission received on short-term deposit accounts during 2000 was 6.5 % (1999: 6.5 %). Total commission earned during the year on these accounts was SR 78 million (1999: SR 70 million).

In 2000, a cash deposit of SR 375 million was reclassified as other non-current assets due to restrictions on the use of such deposit related to the provisions of a loan agreement.

4 ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, consisted of the following:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Trade accounts receivable	4,744,980	4,441,247
Unbilled revenue	<u>1,531,018</u>	<u>1,167,169</u>
	6,275,998	5,608,416
Allowance for doubtful accounts	<u>(1,319,279)</u>	<u>(1,587,501)</u>
	<u>4,956,719</u>	<u>4,020,915</u>

The Company has agreements with foreign network operators, whereby amounts receivable from and payable to the same foreign network operator are subject to the right of set off. At December 31, 2000 and 1999, the net amounts included in accounts receivable and accounts payable are as follows:

	<u>2000</u> Accounts Receivable SR 000's	<u>1999</u> Accounts Receivable SR 000's	<u>2000</u> Accounts Payable SR 000's	<u>1999</u> Accounts Payable SR 000's
Gross international trade accounts	4,181,079	3,472,388	4,727,699	4,331,697
Less: Debt subject to right of set off	<u>(3,687,472)</u>	<u>(2,927,965)</u>	<u>(3,687,472)</u>	<u>(2,927,965)</u>
Net international trade accounts	<u>493,607</u>	<u>544,423</u>	<u>1,040,227</u>	<u>1,403,732</u>

5 PROPERTY, PLANT AND EQUIPMENT

(SR 000's)	<u>Land and Buildings</u>	<u>Telecommunications Plant and Equipment</u>	<u>Other Assets</u>	<u>Capital Work In Progress</u>	<u>Total</u>
<i>Gross book values</i>					
At December 31, 1999	7,544,370	27,422,465	761,116	3,004,279	38,732,230
Additions	-	-	59,622	5,682,627	5,742,249
Transfers	336,927	3,887,521	-	(4,224,448)	-
Disposals	-	(386,638)	(33,422)	-	(420,060)
At December 31, 2000	<u>7,881,297</u>	<u>30,923,348</u>	<u>787,316</u>	<u>4,462,458</u>	<u>44,054,419</u>
<i>Accumulated depreciation</i>					
At December 31, 1999	2,737,365	11,226,327	478,927	-	14,442,619
Charge for the period	174,283	2,131,689	86,945	-	2,392,917
Disposals	-	(385,441)	(33,319)	-	(418,760)
At December 31, 2000	<u>2,911,648</u>	<u>12,972,575</u>	<u>532,553</u>	<u>-</u>	<u>16,416,776</u>
<i>Net book values</i>					
At December 31, 2000	<u>4,969,649</u>	<u>17,950,773</u>	<u>254,763</u>	<u>4,462,458</u>	<u>27,637,643</u>
At December 31, 1999	<u>4,807,005</u>	<u>16,196,138</u>	<u>282,189</u>	<u>3,004,279</u>	<u>24,289,611</u>

As indicated in note 1c above, transfer of legal ownership of certain lands and buildings into the Company's name has not been finalized. This process is in progress.

Land and buildings shown above includes land (in thousands) of SR 2,319,874 as of December 31, 2000 (1999: SR 2,319,874).

During 2000, the Company capitalized commission totaling SR 192,583 (in thousands) (1999: nil) into property, plant and equipment. See note 9 for further discussion.

6 INVESTMENT ACCOUNTED FOR UNDER THE EQUITY METHOD

In 1977 the Telecom Division acquired 36.66% of the common stock of the Arab Satellite Communications Organization ("Arabsat"). This organization was established by the member states of the Arab League in April 1976. Arabsat offers a number of services to member states, as well as to all public and private sectors within its coverage area, principally the Middle East.

Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis.

7 OTHER INVESTMENTS

Other investments consisted of the following:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Available for sale – at market value:		
Investment in ICO	-	15,187
Investment in Newskies	<u>30,443</u>	<u>-</u>
	<u>30,443</u>	<u>15,187</u>
Available for sale – at cost:		
Investment in New ICO	3,375	-
Investment in Intelsat	59,681	62,189
Investment in Inmarsat	28,749	28,749
Investment in Newskies	-	<u>21,150</u>
	<u>91,805</u>	<u>112,088</u>
Held to maturity:		
Government bonds	<u>41,061</u>	<u>54,746</u>
	<u>41,061</u>	<u>54,746</u>
Total other investments	<u>163,309</u>	<u>182,021</u>

In August 1999, the Company's investment in marketable securities, ICO Global Communications (Holdings) Limited ("ICO") was impaired due to the bankruptcy of ICO and the suspension of trading of its stock. On February 18, 2000, ICO filed a reorganization relief plan to emerge from bankruptcy. This plan was approved in May 2000, and on May 17, 2000, all trading in ICO shares was halted and the shares were cancelled. ICO was dissolved and substantially all of its assets and liabilities were transferred to a newly formed company, New ICO, in exchange for the issuance of New ICO shares and warrants to investors. The last available share price was US\$ 0.5 per share as of May 17, 2000 and the investment was further written down to SR 3.4 million in 2000 (1999: SR 15.2 million) to reflect its fair value and the loss of SR 11.8 million (1999: SR 59.8 million) was realized in the statements of income within other income and expenses.

In October 2000, Newskies completed its initial public offering. Consequently, the Company reclassified its investment in Newskies and accounted for it as a marketable security (available for sale) in accordance with the Company's accounting policy. As of December 31, 2000, the Company has recorded unrealized holding gains of SR 9.3 million related to its investment in Newskies.

During 1999, the Government issued bonds to the Company in exchange for amounts due for telecommunication services provided. The bonds were issued at face value with commission rates ranging from 6.29% to 7.12% and maturing through August 2003. Payments of principal and commission will be received throughout the term every six months.

8 ACCOUNTS PAYABLE

Accounts payable consisted of the following:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Capital	3,024,471	4,576,934
Trade	1,277,031	1,240,183
International settlements	1,040,227	1,403,732
Other	<u>1,330,527</u>	<u>897,106</u>
	<u>6,672,256</u>	<u>8,117,955</u>

Certain accounts payable balances are set off against accounts receivable balances as fully explained in note 4.

9 BORROWINGS

Repayments of borrowings at December 31, 2000 are scheduled as follows:

	SR 000's
Short-term borrowings	300,000
Current portion of long-term borrowings	<u>1,134,783</u>
	<u>1,434,783</u>
Long-term borrowings:	
Between one and two years	515,308
Between two and three years	717,391
Between three and four years	200,725
Between four and five years	<u>88,043</u>
	<u>1,521,467</u>
Total loans and other borrowings	<u>2,956,250</u>

The short-term borrowings of SR 300 million are subject to rollover and the Company has the option to convert them into long-term loans.

Commission charged on all facilities, with the exception of the syndicated loan discussed below, does not exceed the Saudi Interbank Offered Rate ("SIBOR") plus 0.7% per annum. In the event of default, the banks have the right to offset the debt repayments against monies routed through the collection accounts at those banks.

Unused financing facilities at December 31, 2000 totaled SR 850 million. These facilities expire through 2003.

Syndicated Loan

On March 16, 1999 the Company entered into a three year syndicated loan agreement for SR 2,250 million. The loan matures in three years with commission being charged at 7.775% in the first year and thereafter at SIBOR plus 0.65%. Payments of principal and commission are due each month commencing April 23, 2000 until maturity. The loan is secured by a restricted deposit account and collections from customers.

On March 23, 1999, the Company borrowed against the syndicated loan facility and used the proceeds to reduce the accounts payable balance with a supplier. The supplier agreed that the payment of SR 2,056 million was final settlement relating to invoices amounting to SR 2,250 million. The SR 194 million difference is equal to the commission on the syndicated loan that accrues during the first twelve months of the loan. The net impact of the syndicated loan and other borrowings on the financial statements is as follows:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Total commission expense incurred	232,197	153,989
Amortization of deferred gain	<u>(39,614)</u>	<u>(153,989)</u>
Net commission expense	192,583	-
Capitalized commission (Note 5)	<u>(192,583)</u>	<u>-</u>
	<u> -</u>	<u> -</u>

10 EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits was as follows:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Balance at beginning of period	1,122,127	736,078
Charge during the period	186,461	432,441
Settlements made during the period	<u>(23,172)</u>	<u>(46,392)</u>
Balance at December 31	<u>1,285,416</u>	<u>1,122,127</u>

There are no assets designated specifically to cover this liability; instead it is paid out of operating cash flows as and when employees leave the Company.

11 ZAKAT

The major elements and amounts of the Zakat base are as follows:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Beginning Share Capital	<u>12,000,000</u>	<u>12,000,000</u>
Additions:		
Beginning Retained Earnings	1,528,830	-
Beginning Legal Reserve	412,180	-
Beginning Provisions	2,743,011	1,330,093
Adjusted Net Income	<u>3,946,775</u>	<u>5,676,634</u>
Total Additions	<u>8,630,796</u>	<u>7,006,727</u>
Deductions:		
Net Property, Plant & Equipment and Capital Work in Progress (limited to shareholder's equity before Zakat)	18,001,845	14,082,926
Investments	711,212	680,220
Non-Current Deferred Costs	<u>47,640</u>	<u>29,721</u>
Total Deductions	<u>18,760,697</u>	<u>14,792,867</u>
Zakat Base	<u>1,870,099</u>	<u>4,213,860</u>

Since the Zakat base is less than the Adjusted Net Income, the Zakat rate of 2.5% is applied to Adjusted Net Income to determine the Zakat charge.

Provision for Zakat	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Balance at beginning of period	141,916	-
Charge for the period	<u>98,669</u>	<u>141,916</u>
Balance at December 31	<u>240,585</u>	<u>141,916</u>

Final Zakat assessments and Zakat payments have not been made for 2000 and 1999.

12 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were as follows:

	<u>2000</u> SR 000's	<u>1999</u> SR 000's
Provision for doubtful accounts	746,553	1,391,570
Consultancy	310,985	412,316
Utilities	288,752	220,112
Other	<u>147,282</u>	<u>283,959</u>
	<u>1,493,572</u>	<u>2,307,957</u>

13 COMMITMENTS AND CONTINGENCIES

Commitments

The Company enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its telephony network expansion programs. As of December 31, 2000 capital expenditure commitments outstanding amounted to approximately SR 1.5 billion.

Certain land and buildings are leased for use in the Company's operations under operating lease commitments, expiring at various dates in the future. During 2000, total rent expense under operating leases amounted to SR 41.3 million (1999: SR 32.1 million). The table below shows the aggregate rental commitments under non-cancelable operating lease arrangements as of December 31, 2000.

Years	SR 000's
2001	18,843
2002	16,775
2003	15,539
2004	15,129
2005	14,901
Thereafter	<u>48,888</u>
Total minimum rental commitments	<u>130,075</u>

Contingencies

In the normal course of business, the Company is subject to proceedings, lawsuits and other claims. Such outstanding matters are not expected to result in a material impact on the Company's financial position or results of operations as reflected in the financial statements.

14 FINANCIAL INSTRUMENTS

Fair value

The carrying values of all financial instruments approximate their fair values at December 31, 2000 and 1999, as discussed below:

- For cash and cash equivalents, accounts receivable and payable and other receivables and payables, fair value is deemed to approximate their carrying amount due to their short-term nature.
- For marketable equity instruments, fair value is based on quoted market prices.
- For Government bonds and borrowings, fair value is based on discounted cash flows.
- For all other investments, fair value is based on management estimates.

The Company does not utilize derivative financial instruments to manage foreign currency exchange and commission rate risks due to factors explained below.

Commission rate risk

The Company manages its cash position by controlling the timing between its cash inflows and cash outflows. Surplus cash is invested to generate the Company's commission income through holding balances in short-term bank deposit accounts, but the commission rate risk attached is not considered to be significant.

Due to the Company's debt portfolio, which consists of various commission rates and maturity terms, management does not consider commission rate risk to be significant.

Consequently, the Company has not used derivative financial instruments to mitigate exposure to commission rate risk.

Exchange rate risk

The Company believes that it is not exposed to significant exchange rate risk since the Company's functional currency is the Saudi Arabian Riyal, which is the principal currency in which the Company transacts. This is currently fixed, within a narrow range, against the U.S. dollar.

Transactions denominated in foreign currencies other than the U.S. dollar are immaterial. Consequently, the net effect of foreign currency transactions during the periods ended December 31, 2000 and 1999 is immaterial.

Concentrations of credit risks

Financial instruments that subject the Company to concentrations of credit risk consist primarily of temporary cash balances and accounts receivable. The Company does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base (residential, professional, large business and public entity customers) operating in numerous industries and located in many regions.

The Company deposits its cash balances with a number of major high credit quality financial institutions and operates a policy of limiting its balances deposited with each institution.

Consequently, the Company does not believe that there is a significant risk of non-performance by these counterparties.

15 RELATED PARTY TRANSACTIONS

Government Agencies

The Company provides various voice, data and administrative services to the Government.

Government agencies accounted for approximately 5% of gross revenues in 2000 (1999: 5%). Revenues and expenses related to Government agencies in 2000 amounted to SR 837 million and SR 3,433 million (including Government charges discussed below), respectively (1999: SR 1,191 million and SR 4,618 million respectively). Amounts receivable from and payable to Government agencies at December 31, 2000 totaled SR 1,643 million and SR 189 million, respectively (1999: SR 919 million and SR 797 million respectively).

Notes to the Financial Statements for the Year Ended December 31, 2000 and the Period from May 2, 1998 to December 31, 1999

Government Charges

The Company is charged by the Government for the right to operate as the Kingdom-wide provider of telecommunications services based on a proportion of net revenues. Net revenues is defined as total operating revenues less access charges as reflected in the statements of income. Effective from January 1, 1999, the Government charge is determined as follows:

- **Commercial Provisioning**
For 1999 and 2000, 20% of the net revenues (as defined above).
For 2001, 20% of the net revenues (as defined above) plus a minimum of 5% of net revenues, to be deducted from dividends payable.
For 2002 and thereafter, 27% of the net revenues (as defined above).
- **License Fees**
License fees will be determined as 1% of net revenues (as defined above). A portion of this fee will be used to finance the operations of the Saudi Telecom Commission.
- **Frequency Spectrum**
A fixed fee of SR 200 million per annum. This fee will continue until such time that the Saudi Telecom Commission establishes new telecom regulations.

Council of Ministers Resolution No. 213, dated April 20, 1998 (23 Dhul Hujja 1418H), states that for the period January 1, 1998, to December 31, 1998, the Government shall receive SR 4 billion from the telecommunications entity. The amount of SR 1,654 million included in the statement of income for the period from May 2, 1998 to December 31, 1999 represents the Company's share of the annual charge.

The charges for the year ended December 31, 2000 and the period from May 2, 1998 to December 31, 1999 are calculated as follows:

	<u>2000</u> SR 000's	<u>1998-1999</u> SR 000's
Charge from May 2 to December 31, 1998	-	<u>1,654,000</u>
Charge for the years ended December 31, 2000 and 1999:		
Commercial Provisioning	2,995,343	2,463,554
License Fees	149,767	123,177
Frequency Spectrum	<u>200,000</u>	<u>200,000</u>
	<u>3,345,110</u>	<u>2,786,731</u>
Total Government charge	<u>3,345,110</u>	<u>4,440,731</u>

Arabsat

During the period, the Company incurred charges of approximately SR 36 million (1999: SR 65 million) from Arabsat with respect to satellite utilization. Amounts receivable from and payable to Arabsat at December 31, 2000 totaled SR 10 million and SR 6 million, respectively (1999: SR 15 million and SR 6 million, respectively).

16 SHAREHOLDER'S EQUITY

According to the Articles, the Company is subject to the following provisions:

- To set aside, as a reserve within equity, 10% of its net income as a legal reserve until such a reserve equals 50% of issued common shares. This reserve is currently not available for distribution to the shareholder of the Company. During 2000, the Company set aside SR 395.3 million (1999: SR 412.2 million).
- Based upon a proposal from the Board of Directors, a percentage of net income may be appropriated by the shareholder to establish a special reserve to be allocated to specific projects. As of December 31, 2000 and 1999, the Board of Directors had not established such a reserve.
- The Board of Directors has the discretion to declare dividends. The Board of Directors declared a dividend in June 2001 in the amount of SR 2,181 million related to net income of the period from May 2, 1998 to December 31, 1999. This dividend was netted against the Government receivable related to share capital that was an element of the Company's net assets at incorporation.

17 SUBSEQUENT EVENTS

Subsequent to December 31, 2000, the Company arranged a syndicated loan of SR 2.5 billion. As of July 31, 2001 borrowings made after December 31, 2000 amounted to SR 600 million. The financing is long-term, matures in 2004 and bears commission at SIBOR plus 0.45% per annum. In the event of default, the banks have the right to offset the debt repayments against monies routed through the collection accounts at those banks.

During 2001, the Council of Ministers issued Decree No. 75 dated May 28, 2001 (5 Rabi Awal 1422H). This required the Company to contribute towards the settlement of pension costs of the personnel employed under Chapter 1 of the Civil Service Regulations who have been seconded to the Company. Accordingly a charge of approximately SR 750 million will be made in the 2001 financial statements to recognize the estimated cost of these arrangements to the Company.