OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Report and financial statements for the year ended 31 December 2020

Registered address
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Al Mawaleh, Muscat,
Sultanate of Oman.

Principal place of business
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OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Report and financial statements for the year ended 31 December 2020

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DIRECTORS' REPORT

Directors' Report

The Directors submit their report and the audited financial statements for the year ended 31 December 2020.

Principal activities

The principal activities of the Company are electricity transmission and dispatch in the north of Oman ("Main Interconnected System") under a Licence issued by the Authority for Public Service Regulation, Oman (APSR). The Licence is amended effective 1 January 2014 to include the area of Dhofar in the south of Oman, following a reorganisation of the operations of Dhofar Power Company SAOC.

Basis of preparation of accounts

The accompanying audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and The Commercial Companies Law of 2019.

Results and appropriation

The results and financial position of the Company for the year ended 31 December 2020 are set out on page 3 to 49 of the financial statements.

Auditors

The financial statements have been audited by KPMG.

On behalf of the Board of Directors

Chairman	**Director**	**Acting Chief Executive Officer**

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oman Electricity Transmission Company SAOC ("the Company") set out on pages 3 to 49, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Continued from page 2 (a)

Key Audit Matter *(continued)*

Key audit matter	**How our audit addressed the key audit matter**
Capitalisation of property, plant and equipment	
Refer to note 7. Capital expenditure represents a material cost for the Company. During the year, the Company incurred and capitalized an amount of RO 51.422 million. The assessment and timing of whether the expenditure meets the capitalization criteria set out in IAS 16 Property, Plant and Equipment requires the use of judgement. There is a risk that expenditure is inappropriately capitalized against relevant accounting guidance and therefore this has been considered as a key audit matter.	We evaluated the design and implementation and tested the operating effectiveness of key controls on the capitalization of new property, plant and equipment during the year; We tested a sample of additions to property, plant and equipment during the year and agreed the amounts to supporting documents; We evaluated management's assessment as to whether the amount capitalized meets the recognition criteria set forth in IAS 16 Property, Plant and Equipment; and We tested a sample of transfers of assets from capital work in progress to relevant property, plant and equipment categories to determine that they are transferred to the appropriate categories once available for use.

Other Information

Management is responsible for the other information. The other information comprises the Directors' report set out on page 1.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Continued on page 2 (c)

Continued from page 2 (b)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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KPMG

Continued from page 2 (c)

Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We report that these financial statements comply, in all material respects, with the applicable provisions of Commercial Companies Law of 2019.

15 March 2021

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KPMG

KPMG LLC

Statement of financial position
As at 31 December

	Notes	2020 RO '000	2019 RO '000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**1,284,255**	1,270,808
Intangible assets	*7a*	**943**	1,314
Right of use assets	*7b*	**13,461**	13,816
Contract assets	*8*	**10,029**	9,586
Total non-current assets		**1,308,688**	1,295,524
Current assets			
Contract assets	*8*	**39**	150
Inventories	*9*	**5,694**	5,504
Other current assets	*10*	**5,471**	1,781
Trade and other receivables	*11*	**30,307**	19,866
Cash and cash equivalents	*12*	**53,209**	21,083
Total current assets		**94,720**	48,384
Total assets		**1,403,408**	1,343,908
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*13*	**225,000**	225,000
Legal reserve	*14*	**75,000**	75,000
General reserve	*15*	**250**	250
Retained earnings		**190,466**	172,838
Total equity		**490,716**	473,088
Non-current liabilities			
Long term borrowings	*16*	**575,682**	575,236
Provision for employees' benefits	*17*	**765**	1,015
Deferred tax liability	*18*	**80,292**	73,191
Deferred revenue	*19*	**61,970**	64,294
Lease liabilities	*20*	**13,066**	13,140
Trade and other payables	*21*	**7,109**	7,433
Contract liabilities	*8*	**8,358**	6,621
Total non-current liabilities		**747,242**	740,930
Current liabilities			
Short-term borrowings	*22*	**100,090**	65,073
Provision for employees' benefits	*17*	**414**	553
Provision for taxation	*29*	**1,344**	1,344
Deferred revenue	*19*	**2,160**	2,175
Lease liabilities	*20*	**969**	966
Trade and other payables	*21*	**51,660**	57,492
Other current liabilities	*23*	**8,661**	2,121
Contract liabilities	*8*	**152**	166
Total current liabilities		**165,450**	129,890
Total liabilities		**912,692**	870,820
Total equity and liabilities		**1,403,408**	1,343,908

These financial statements on pages 3 to 49 were approved by the Board of Directors on 25th February 2021 and signed on their behalf by:

Ahmed Amur Al Mahrizi **Chairman**	**Ahmed Tufail Al Rahman** **Director**	**Masoud Salam Al Reyami** **Acting Chief Executive Officer**

The accompanying notes on pages 7 to 49 form an integral part of these financial statements.
The audit report of the independent auditors is set forth on pages 2 to 2b.

OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Statement of profit or loss and other comprehensive income
For the year ended 31 December

	Notes	**2020** **RO'000**	2019 RO'000
Revenue	*24*	**112,222**	114,936
Operating costs	*25*	**(42,150)**	(38,575)
Gross profit		**70,072**	76,361
General and administrative expenses	*26*	**(14,543)**	(17,105)
Impairment on financial assets	*8,11&12*	**(239)**	(80)
Other income	*27*	**1,888**	1,905
Profit from operations		**57,178**	61,081
Finance income	*28*	**15,226**	15,105
Finance costs	*28*	**(26,675)**	(25,224)
Profit before tax		**45,729**	50,962
Taxation	*29*	**(7,101)**	(8,827)
Total comprehensive income for the year		**38,628**	42,135

The accompanying notes on pages 7 to 49 form an integral part of these financial statements.
The audit report of the independent auditors is set forth on pages 2a to 2d.

OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Statement of changes in equity
For the year ended 31 December 2020

	Share capital	Legal reserve	General reserve	Retained earnings	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 1 January 2019	225,000	75,000	250	146,453	446,703
Profit for the year and total comprehensive income	-	-	-	42,135	42,135
Transactions with owners of the Company					
Dividends (note 31)	-	-	-	(15,750)	(15,750)
At 31 December 2019	225,000	75,000	250	172,838	473,088
At 1 January 2020	**225,000**	**75,000**	**250**	**172,838**	**473,088**
Profit for the year and total comprehensive income	**-**	**-**	**-**	**38,628**	**38,628**
Transactions with owners of the Company					
Dividends paid (note 31)	**-**	**-**	**-**	**(21,000)**	**(21,000)**
At 31 December 2020	**225,000**	**75,000**	**250**	**190,466**	**490,716**

The accompanying notes on pages 7 to 49 form an integral part of these financial statements.
The audit report of the independent auditors is set forth on pages 2a to 2d.

Statement of cash flows
For the year ended 31 December

	Notes	2020	2019
Cash flows from operating activities		**RO'000**	RO'000
Profit before tax		**45,729**	50,962
Adjustments for:			
Depreciation	*7*	**37,975**	35,211
Amortization of intangible assets	*7(a)*	**501**	520
Depreciation on right of use assets	*7(b)*	**355**	353
Impairment of financial assets	*8,11&12*	**239**	80
Interest on short term borrowings	*28*	**1,726**	1,657
Amortization of transaction cost	*28*	**446**	466
Finance charges on lease liabilities	*20*	**898**	903
Interest capitalized	*7*	**2,839**	793
Interest on bank deposits	*28*	**(128)**	(57)
Inventory Provision		**-**	32
Interest on long term borrowings	*28*	**23,605**	22,198
Gain on sale of property, plant and equipment	*27*	**(238)**	(56)
Provision for employees' benefits	*26(a)*	**(34)**	273
		113,913	113,335
Changes in:			
Deferred revenue	*19*	**(2,339)**	(1,493)
Inventories	*9*	**(190)**	(584)
Trade and other receivables	*11*	**(10,679)**	(7,520)
Contract assets and liabilities	*8*	**1,391**	1,008
Other current assets and liabilities	*10 & 23*	**2,849**	-
Trade and other payables	*21*	**(7,209)**	(35,274)
Cash generated from operating activities		**97,736**	69,472
Payment of employees' benefits	*17*	**(355)**	(98)
Net cash from operating activities		**97,381**	69,374
Cash flows from investing activities			
Acquisition of property, plant and equipment	*7 & 21*	**(50,516)**	(61,724)
Acquisition of intangible assets	*7(a)*	**(130)**	(1,207)
Proceeds from sale of property, plant and equipment		**239**	56
Interest on bank deposits	*28*	**128**	57
Net cash used in investing activities		**(50,279)**	(62,818)
Cash flows from financing activities			
Repayment of lease liabilities	*20*	**(969)**	(966)
Net proceeds from short term borrowings	*36*	**35,017**	55,073
Interest paid on long term borrowings		**(25,244)**	(24,620)
Interest paid on short term borrowings		**(2,581)**	-
Dividends paid	*31*	**(21,000)**	(15,750)
Net cash (used in) / generated from financing activities		**(14,777)**	13,737
Net increase in cash and cash equivalents		**32,325**	20,293
Cash and cash equivalents at the beginning of the period		**21,083**	814
Cash and cash equivalents at the end of the period	*12*	**53,408**	21,107

The accompanying notes on pages 7 to 49 form an integral part of these financial statements.
The audit report of the independent auditors is set forth on pages 2a to 2d.

1. General

Oman Electricity Transmission Company SAOC (the "Company") is a closed Omani joint stock company registered under the Commercial Companies Law of Oman.

The establishment and operations of the Company are governed by the provisions of the Law for the Regulation and Privatization of the Electricity and Related Water Sector (the "Sector Law" as amended) promulgated by Royal Decree 78/2004.

The principal activities of the Company are electricity transmission and dispatch in the north of Oman ("Main Interconnected System") under a License issued by the Authority for Electricity Regulation, Oman (AER), the name of which has been changed to Authority for Public Services Regulation (APSR) under Royal degree 78/2020. The License is amended effective 1 January 2014 to include the area of Dhofar in the south of Oman, following a reorganization of the operations of Dhofar Power Company SAOC.

The Company commenced its commercial operations on 1 May 2005 (the "Transfer Date") following the implementation of a decision of the Ministry of National Economy (the "Transfer Scheme") issued pursuant to Royal Decree 78/2004.

During the period, 49% shares of the Company have been sold by the Holding Company to State Grid International Development (SGID) on 11 March 2020. SGID is a wholly owned subsidiary of the State Grid Corporation of China (SGCC), which is the largest electricity transmission network in the world. Refer note 13 for the shareholdings.

Oman Electricity Transmission Company SAOC is a 50.99% subsidiary of NAMA Holding Company SAOC (the "Holding Company"), a Company registered in the Sultanate of Oman, 48.999% is held by State Grid International Development Singapore Private limited, 0.001% SGID Singapore Oman Asset Private limited as a result of sale of shares as mentioned above, and 0.005% is held by Nama Shared Services LLC (NSS) and Numo Institute of Competency Development LLC (NICD) each. The Ultimate Parent is the Government of Sultanate of Oman, as it holds 100% shareholding in the Holding Company through the Oman Investment Authority (OIA) which was formed during the year pursuant to the Royal Decree 61/2020 under which all the shareholdings of the entities owned by Ministry of Finance (MoF) have been transferred to OIA. Before the formation of OIA 100% shares of the Company were held by MoF.

2. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the requirements of Commercial Companies Law of 2019.

Basis of presentation

These financial statements are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2. Statement of compliance *(continued)*

Basis of presentation *(continued)*

Going concern

As at 31 December 2020, the current liabilities of the Company exceed its current assets by RO 70.73 million (2019: RO 81.5 million), which indicates that the Company may require additional funding and continued financial support from the shareholders to meet its financial obligations as they fall due.

Management believes that it is appropriate to prepare the financial statements on a going concern as the Company has been generating profits and sufficient funding is available from the banks when needed. The Company has also successfully secured funding through bond issuance in 2021 which further strengthens the going concern assumption (refer note 39).

3. Application of new and revised International Financial Reporting Standards (IFRS)

A number of new standards, amendments to standards and interpretations are effective for the periods beginning on or after 1 January 2020. Those, which are relevant to the Company, are set out below.

3.1 New and revised IFRS in issue and effective

- Amendments to IFRS 16 COVID 19 related rent concessions
- Amendment to IAS 1 and IAS 8 Definition of Material
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These standards do not have any material impact on these financial statements.

3.2 New and revised IFRS in issue but not yet effective

- Amendments to References to Conceptual Framework in IFRS Standards (from 1 January 2020)
- IFRS 17 Insurance Contracts (1 January 2021)

These are not expected to have a significant impact on the Company's financial statements.

4. Significant accounting policies

The accounting policies applied in these financial statements are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2019.

IFRS 16 *Leases*

At inception of a contract the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Company assesses whether:

4. Significant accounting policies *(continued)*

IFRS 16 *Leases* (*continued*)

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

A. As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

4. Significant accounting policies *(continued)*

IFRS 16 *Leases* *(continued)*

A. As a lessee *(continued)*

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities separately in the statement of financial position.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The principal estimated remaining useful lives used for this purpose are:

Assets	**Years**
Usufruct agreements	25 – 50

Short-term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term assets of IT equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

B. As a lessor

The Company has not entered into any arrangement in which it is acting as a Lessor.

4. Significant accounting policies *(continued)*

IFRS 9 *Financial Instruments*

i. Classification and measurement of financial assets and financial liabilities

Contractual cash flows comprise of solely payment of principal and interest
Where the Company has a business model to collect contractual cash flows, the Company assesses whether the financial instrument cash flows represents solely payments of principal and interest (SPPI). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

In making this assessment, the Company considers whether the contractual cash flows are consistent with the basic lending agreement which means the interest paid only includes the consideration for time value of money and credit risk. Financial instruments whose cash flows characteristics include elements other than time value of money and credit risk do not pass the test and are classified and measured at fair value through profit or loss.

The Company's financial assets include trade and other receivable, contract assets and cash at bank. These financial assets qualify for and are classified as debt instruments measured at amortized cost.

Reclassification of financial assets
The Company reclassifies a financial asset when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Subsequent measurement of financial liabilities
The Company categorizes its financial liabilities into two measurement categories: FVTPL and amortized cost. The Company's financial liabilities include trade and other payables, amounts due to related parties, loan from shareholders and senior facility loan. All financial liabilities of the Company are measured at amortized cost.

The Company does not have any FVTPL financial liability.

Derecognition of financial assets
The Company determines if the asset under consideration for derecognition is:

- an asset in its entirety, or
- specifically identified cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets)

4. Significant accounting policies *(continued)*

IFRS 9 Financial Instruments *(continued)*

i. Classification and measurement of financial assets and financial liabilities *(continued)*

Derecognition of financial assets (continued)

Once the asset under consideration for derecognition has been determined, the Company performs an assessment as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition. An asset is transferred if either the Company has transferred the contractual rights to receive the cash flows, or the Company has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

a. the Company has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset;
b. the Company is prohibited from selling or pledging the original asset; and
c. the Company has an obligation to remit those cash flows without material delay.

Once the Company has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

• there is a currently enforceable legal right to offset the recognized amounts; and
• there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Trade and other receivables

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognized at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value and have maturity of three months or less at the date of placement.

4. Significant accounting policies *(continued)*

IFRS 9 Financial Instruments *(continued)*

Financial liabilities

Financial liabilities (including borrowings and trade and other payables) are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Trade and other payables

Trade and other payables are initially measured at their fair value and subsequently measured at amortized cost, using the effective interest method.

ii. Impairment of financial assets

Under IFRS 9, loss allowance are measured on either of the following bases:

- *12 month ECL*: these are ECLs that result from possible default events within 12 months after the reporting date; and
- *Lifetime ECL:* these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowance at an amount equal to lifetime ECLs, except for the following, which are measured as 12- month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Finance assets for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

General approach

The Company applies three-stage approach to measuring ECL. Assets migrate through the three stages based on the change in credit quality since initial recognition. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is a detrimental impact on the estimated future cash flows of the financial asset. The Company applies general approach to all financial assets except trade receivable without significant financing component.

Simplified approach

The Company applies simplified approach to measuring credit losses, which mandates recognition of lifetime expected loss allowance for trade receivables without significant financing component. Under simplified approach, there is no need to monitor for significant increases in credit risk and the Company will be required to measure lifetime expected credit losses at all times.

4. Significant accounting policies *(continued)*

IFRS 9 ***Financial Instruments*** *(continued)*

ii. Impairment of financial assets *(continued)*

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward- looking information.

The Company assumes that the credit risk on a financial asset has increased significantly based on the certain delinquency period (days past due) or if exposure has moved from investment grade to non-investment grade on credit rating scale of independent credit rating agency in case of low credit risk instrument.

To determine whether a financial instrument has low credit risk, the Company uses internal credit ratings which are mapped to the external credit rating agencies such as Moody's etc. The Company considers that the rating within the investment grade, (the Company considers this to be Ba3 or higher per Moody's), are considered a low risk and have less likelihood of default. Where the external rating of a financial instrument is not available, the Company reviews the ability of the counterparty by reviewing their financial statements and other publicly available information.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or based on the certain delinquency period (days past due).

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Credit- impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowance for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to financial assets are presented separately in the statement of profit or loss.

4. Significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment is their purchase price together with any incidental expenses necessary to bring the assets to its intended condition and location and borrowing costs capitalized in accordance with the Company's accounting policies. Subsequent costs are included in the asset's carrying amount are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the component will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement profit or loss in the period in which they are incurred.

The cost of property, plant and equipment is written down to residual value in equal installments over the estimated useful lives of the assets. The estimated useful lives are:

Assets	**Years**
Buildings	30
Line, cables and substation assets	30 - 60
Other plant and machinery	12 - 40
Furniture, vehicles and equipment	2 - 7
Intangible assets	5
Plant spares	20

When an asset has to be replaced as per instruction from Ministry, then the asset is depreciated over remaining period under which the asset is to be replaced.

Capital work-in-progress is not depreciated until it is transferred to one of the above categories at the time when it is available for use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The assets residual values and useful lives are adjusted, if appropriate, at each reporting date.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals of Property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profits for the period.

4. Significant accounting policies *(continued)*

Intangible assets

Intangible asset of the Company with finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure on internally generated goodwill and brands is recognized in profit and loss as incurred.

Amortization is calculated to write off the cost of intangible assets less their estimated useful lives using the straight-line method over their estimated useful lives and is generally recognized in profit and loss. The estimated useful lives are 5 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise purchase costs and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated principally using the weighted average method. Allowance is made for slow moving and obsolete inventory items where necessary, based on management's assessment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Provisions for employees' benefits

A liability is recognized for benefits accruing to employees in respect of wages, salaries and annual leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Provision for employees' benefits is accrued having regard to the requirements of the Oman Labour Law 2003 as amended or in accordance with the terms and conditions of the employment contract with the employees, whichever is higher. Employee entitlements to annual leave are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

End of service benefit for Omani employees are contributed in accordance with the terms of the Social Securities Law 1991 and Civil Service Employees Pension Fund Law. Gratuity for Omani employees who transferred from the Ministry of Housing, Electricity and Water on 1 May 2005 is calculated based on the terms agreed between the Holding Company and the Government. An accrual has been made and is classified as a non-current liability in the statement of financial position.

In accordance with the provisions of IAS 19, Employee Benefits, management carries out an exercise to assess the present value of the Company's obligations as of the reporting date, in respect of employees' end of service benefits payable to determine whether it is not materially different from the provision made. Under this method, an assessment is made of an employee's expected service period with the Company and the expected basic salary at the date of leaving the service, discounted over the period of remaining expected period using the country's risk-free rate.

4. Significant accounting policies *(continued)*

Provisions

Provisions are recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that it will result in an outflow of economic benefit that can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Where some or all of the economic benefits required to settle a provision are expected to be recovered from third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Dividends

Dividends are recognized as a liability in the period in which they are approved by the Company's shareholders.

Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Government grants

Grants from the Government are recognized at their fair value / nominal value, based on type of grant where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to construction of assets are included in deferred revenue as a "Funding from government sponsored assets" within non-current liabilities and are credited to the statement of profit or loss on a straight line basis over the expected useful lives of related assets.

Revenue

Revenue comprises (a) Transmission Use of System Charges (TUS) charged to the distribution and supply companies (related parties) and (b) Transmission Connection Charges (TCC) charged to the generation, distribution and supply companies.

The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good or service to a customer.

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Company considers the terms of the contracts with customers and the Price Control Maximum Allowed Revenue for the relevant period as approved by the Authority for Electricity Regulation, Oman, the name of which has been changed to Authority for Public Service Regulation under Royal degree 78/2020 to determine the transaction price.

4. Significant accounting policies *(continued)*

Revenue *(continued)*

Revenue from the transmission use of system charges

Transmission of electricity is considered as a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Company transfers control of electricity transmitted over time and, therefore, satisfies a performance obligation and recognizes revenue over time as the customer simultaneously receives and consumes the electricity transmitted by the Company.

The Company recognizes the transmission use of system charges when it transfers the control of a product or service to a customer i.e. when unit of electricity is transmitted to the customer. The Company measures the progress of transfer of each distinct unit in the series to the customer (output method or number of units transferred).

Revenue from the connection to the grid contracts

The services included in the contract (i.e. connection service and continue access to the electricity grid) represents single performance obligation to fulfil over time, as they are not distinguished within the context of the contract. Revenue from the connection contracts is deferred on the basis of the nature of the obligation arising from the contract with the customer.

The Company considers all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract. In determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Company with a significant benefit of financing the transfer of goods or services to the customer.

In this regard, the Company recognizes the obligation to transfer the customer said connection services for which it has received consideration as contract liabilities and recognize contract assets for the amount accrued to the Company based on the financing element.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes the strategic decisions.

Foreign currency translation

Items included in the Company's financial statements are measured and presented using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the "functional currency"). The financial statements are prepared in Rial Omani, rounded to the nearest thousand.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss as they arise.

4. Significant accounting policies *(continued)*

Finance income

Finance income comprises interest received or receivable on funds invested and the financing portion of transmission connected charges. Interest income is recognized in the profit or loss as it accrues taking into account the effective yield on the asset.

Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous period.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax liability.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. The carrying amount of deferred tax assets is Unaudited at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset as there is a legally enforceable right to offset these in the Sultanate of Oman.

Current and deferred tax is recognized as an expense or benefit in profit or loss except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

Contract assets

The contract asset is the Company’s right to consideration for work completed. The Company recognizes contract asset on customer transmission connection contracts where payment terms are longer as compared to the life of the asset. Revenue is settled over time throughout the life of the asset.

Contract liabilities

The contract liabilities are the advance consideration received from customers for which revenue is recognized over time. The Company recognizes contract liability on customer transmission Connection contracts where payment terms are shorter as compared to the life of the asset.

4. Significant accounting policies *(continued)*

Impairment non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

5. Significant accounting estimates and judgment

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

Determining whether an arrangement contains a service concession arrangement (IFRC 12)
The Company considered the nature of the arrangement of the usufruct and its necessity to continue operating. The Management considered the fact that the Company is regulated, pricing mechanism is controlled by the Authority. Moreover, Company's customers, expansion projects, upgrades and capital expenditures are ultimately controlled by the Government's budgeting process. Additionally, the usufruct agreements' termination may have a material adverse impact on the Company ability to operate and access its assets. Given the nature of this relationship, the Company determined that it is not in the business of construction of assets as a service but is foremost a distributor of power and the fees charged for access to this power as a public service entity. Additionally, though the term of the usufruct agreements is only 25 years on a renewing basis, the Management has already concluded that the renewal will occur and has concluded that the useful life of the assets should be depreciated over a longer period than that would be allowable if IFRIC 12 were to be applied. Therefore, the accounting for the assets under IAS 16 is the most useful presentation and the Management will evaluate its accounting policy should further privatization of the Company be planned.

Depreciation
Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5. Significant accounting estimates and judgment *(continued)*

Provision for impairment - Measurement of the expected credit loss allowance
Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the independent third party's (i.e. Moody's) analysis of counterparty's risk of default at the end of each reporting period. This analysis is based on counter party's historical data, existing market conditions as well as forward looking estimates.

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

6. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), liquidity risk and credit risk. However, the Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit risk management is carried out by the Company and liquidity risk and market risk by the Holding Company's treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Financial risk factors

Market risk

The Market risk is the risk that changes in market prices e.g., foreign exchange rates, interest rates that will affect the Company's income. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

Price risk

The prices for the use of Company's transmission facilities are determined by the Authority for Public Services Regulation (APSR), Oman and are governed by long term agreements with its customers. Hence, the Company is not subject to significant price risk.

Foreign currency risk

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to the US Dollar. The Rial Omani is pegged to the US Dollar. Since most of the foreign currency transactions are in US Dollars or other currencies linked to the US Dollar, management believes that the exchange rate fluctuations would have an insignificant impact on the pre-tax profit.

6 Financial risk management *(continued)*

Financial risk factors *(continued)*

Interest rate risk

The Company's interest rate risk profile includes only fixed rate instruments. The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the profit or loss and other comprehensive income. At the reporting date the interest rate risk profile of the Company's fixed interest bearing financial instruments was as follows:

	2020	2019
	RO'000	RO'000
Lease liabilities (note 20)	**14,035**	14,106
Long term borrowings (note 16)	**575,682**	575,236
Short term borrowing (note 22)	**100,090**	65,073

Liquidity risk

Liquidity risk is the risk that Company will encounter difficulty in meeting the obligations associated with the financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liability is to ensure as far as possible that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions without incurring unacceptable losses or risky damage to Company's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining periods at the reporting date to the contractual maturities date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

6 Financial risk management *(continued)*

Financial risk factors *(continued)*

Liquidity risk *(continued)*

31 December 2020	Carrying amount	Contractual cash flows: Total	1 month to 3 months	3 months to 1 year	1 year and above
	RO'000	RO'000	RO'000	RO'000	RO'000
Non-interest bearing					
Trade payables (note 21)	**28,180**	**28,180**	**8,715**	**19,465**	**-**
Accruals and other payables (note 21)	**30,453**	**30,453**	**2,511**	**20,833**	**7,109**
Amount due to related parties (note 21)	**132**	**132**	**132**	**-**	**-**
	58,765	**58,765**	**11,358**	**40,298**	**7,109**
Interest bearing					
Lease liabilities (note 20)	**14,035**	**38,716**	**242**	**727**	**37,747**
Long term borrowings (note 16)	**575,682**	**709,902**	**5,002**	**20,242**	**684,658**
Short term borrowings (note 22)	**100,090**	**100,490**	**100,490**	**-**	**-**
	689,807	**849,108**	**105,734**	**20,969**	**722,405**
31 December 2019					
Non-interest bearing					
Trade payables (note 21)	18,902	18,902	15,965	2,937	-
Accruals and other payables (note 21)	39,251	39,251	2,456	29,362	7,433
Amount due to related parties (note 21)	870	870	870	-	-
	59,023	59,023	19,291	32,299	7,433
Interest bearing					
Lease liabilities (note 20)	14,106	39,177	1,584	6,336	31,257
Long term borrowings (note 16)	575,236	735,146	5,002	20,242	709,902
Short term borrowings (note 22)	65,073	65,128	65,128	-	-
	654,415	839,451	71,714	26,578	741,159

The Accruals and other payables do not include the withholding tax payable.

Credit risk

Credit risk is the risk of financial loss to the Company if counterparty defaults or fails to honor a financial obligation as it falls due. It takes into account the probability of involuntary default, where the counterparty does not possess the financial means to repay as well as strategic default, where counterparty with the ability to repay deliberately defaults. The credit risk of the Company is primarily attributable to contract assets, trade and other receivables and bank balances.

6 Financial risk management *(continued)*

Financial risk factors *(continued)*

Credit risk *(continued)*

Credit quality analysis

The following table sets out information about the credit quality of bank balances, trade and other receivables and contract assets.

	31 December 2020					31 December 2019
	Weighted average loss rate	**12-month ECL**	**Lifetime ECL Not credit impaired**	**Lifetime ECL Credit impaired**	**Total**	Loans and Receivables
Cash and Bank balances						
Based on Moody's credit rating						
- Ba3	**0.37%**	**53,400**	**-**	**-**	**53,400**	21,101
Expected credit losses		**(199)**	**-**	**-**	**(199)**	(24)
Amortised cost		**53,201**	**-**	**-**	**53,201**	21,077
Trade receivable						
Based on Moody's credit rating						
- B1 / Ba3		**-**	**24,830**	**-**	**24,830**	14,399
Based on internal rating						
- Grade 4- / 5+	**0.39%**	**-**	**1,821**	**-**	**1,821**	1,786
		-	**26,651**	**-**	**26,651**	16,185
Expected credit losses		**-**	**(103)**	**-**	**(103)**	(63)
Amortised cost		**-**	**26,548**	**-**	**26,548**	16,122
Contracts assets						
Based on Moody's credit rating						
- Ba3 / B1		**9,973**	**-**	**-**	**9,973**	9,616
Based on internal rating						
- Grade 4- / 5-		**133**	**-**	**-**	**133**	134
		10,106	**-**	**-**	**10,106**	9,750
Expected credit losses	**0.38%**	**(38)**	**-**	**-**	**(38)**	(14)
Amortised cost		**10,068**	**-**	**-**	**10,068**	9,736

6 Financial risk management *(continued)*

Financial risk factors *(continued)*

Credit risk *(continued)*

Trade and other receivables

The Company's exposure to credit risk on trade and other receivables is influenced mainly by the individual characteristics of each customer. The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables. Trade receivables primarily represent amount due from generation and distribution companies and related parties. The Company does not consider this as an undue exposure since obligation of generation and distribution companies is considered fully recoverable.

The exposure to credit risk for trade receivables at the reporting date by type of customer is:

	2020	2019
	RO'000	RO'000
Trade receivables from related parties (note 11)	**24,830**	14,399
Trade receivables from other customers (note 11)	**1,821**	1,786
	26,651	16,185

Trade and other receivables have been considered for impairment as per the ECL method under IFRS 9, and a provision of RO 103 thousand has been recorded in this respect.

Charge during the period:

	2020	2019
	RO '000	RO '000
Provision for impairment of trade receivables (note 11)	**40**	54
Provision for impairment of cash and cash equivalent (note 12)	**175**	23
Provision for impairment on contract assets (note 8)	**24**	3
	239	80

6 Financial risk management *(continued)*

Credit risk *(continued)*

Trade and other receivables *(continued)*

The net carrying amount of financial assets represents maximum credit exposure. The exposure to credit risk at the reporting date is on account of:

		2020	2019
		RO'000	RO'000
Contract assets (note 8)		**10,068**	9,736
Trade receivables (note 11)		**26,548**	16,122
Bank balances (note 12)		**53,201**	21,077
		89,817	46,935
Name of the Bank	**Rating**		
Bank Muscat SAOG – gross amount	Ba3	**53,400**	21,101

The ratings are based on accredited credit rating agencies.

Categories of financial instruments

	2020	2019
Financial assets	**RO'000**	RO'000
Amortised cost		
Trade receivables (note 11)	**26,548**	16,122
Cash and bank balances (including cash in hand) (note 12)	**53,209**	21,083
	79,757	37,205

6 Financial risk management *(continued)*

Categories of financial instruments *(continued)*

	2020	2019
Financial liabilities	**RO'000**	RO'000
Financial liabilities at amortised cost		
Other payables (note 21)	**7,109**	7,433
Trade payables (note 21)	**28,180**	18,902
Accruals and other payables (note 21)	**23,344**	31,818
Amount due to related parties (note 21)	**132**	870
Long term borrowings (note 16)	**575,682**	575,236
Short term borrowings (note 22)	**100,090**	65,073
	734,537	699,332

The Accruals and other payables do not include withholding tax payable.

Fair value estimation

The management believes that the fair value of financial assets and liabilities are not significantly different from their carrying values in the financial statements.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to provide an adequate return to shareholders.

The Board's policy is to maintain a strong capital base so as to maintain creditors' and market confidence and to sustain future development of the business. The capital structure of the Company comprises share capital, reserves and retained earnings.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company is not subject to any externally imposed capital requirements other than the requirements of the Commercial Companies Law of 2019, however the Company has a target net debt to net debt and equity gearing ratio not exceeding 70% for debt. The gearing ratio at 31 December 2020 of 56% (2019: 57%) was below the target range.

<u>Gearing ratio</u>
Gearing ratio at the end of the reporting period/year was as follows:

	2020	2019
	RO '000	RO '000
Debt (Long-term and short-term)	**675,772**	640,309
Cash and bank balances	**(53,209)**	(21,083)
Net debt	**622,563**	619,226
Equity	**490,716**	473,088
Debt + Equity	**1,113,279**	1,092,314
Gearing Ratio	**56%**	57%

OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2020 *(continued)*

7 Property, plant and equipment

The land on which buildings and the substations of the Company is constructed are leased from Ministry of Housing, Government of Sultanate of Oman under usufruct agreements.

	Buildings	**Lines and cables**	**Substation assets**	**Other plant and machinery**	**Furniture, vehicles and equipment**	**Plant spares**	**Work-in-progress**	**Total**
	RO ’000	**RO ’000**	**RO ’000**	**RO ’000**	**RO ’000**	**RO ’000**	**RO ’000**	**RO ’000**
Cost								
01 January 2019	155,820	592,323	405,973	120,433	9,268	2,104	138,937	1,424,858
Additions	2,651	3,757	3,695	786	272	331	50,232	61,724
Transfers	16,369	27,436	24,685	5,579	112	(309)	(73,872)	-
Disposals/retirements	-	-	-	-	(190)	-	-	(190)
01 January 2020	**174,840**	**623,516**	**434,353**	**126,798**	**9,462**	**2,126**	**115,297**	**1,486,392**
Additions	**766**	**1,622**	**475**	**570**	**218**	**1**	**47,770**	**51,422**
Transfers	**8,127**	**29,748**	**7,873**	**2,530**	**45**	**17**	**(48,340)**	**-**
Disposals/retirements	**-**	**-**	**-**	**-**	**(1,284)**	**-**	**-**	**(1,284)**
31 December 2020	**183,733**	**654,886**	**442,701**	**129,898**	**8,441**	**2,144**	**114,727**	**1,536,530**

Note: PPE addition during the year includes capitalization of interest on borrowings for a sum of RO 2.839 million (2019: 4.748 million) at the capitalization rate of 10.20% (2019: 17.28%)

OMAN ELECTRICITY TRANSMISSION COMPANY SAOC

Notes to the financial statements
for the year ended 31 December 2020 *(continued)*

7 Property, plant and equipment *(continued)*

	Buildings	Lines and cables	Substation assets	Other plant and machinery	Furniture, vehicles and equipment	Plant spares	Work-in-progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Accumulated Depreciation								
01 January 2019	30,892	60,672	53,982	28,469	6,219	329	-	180,563
Charge for the year	6,056	10,952	10,586	6,426	1,091	100	-	35,211
Transfers	-	-	-	44	-	(44)	-	-
Disposals/retirement	-	-	-	-	(190)	-	-	(190)
01 January 2020	**36,948**	**71,624**	**64,568**	**34,939**	**7,120**	**385**	**-**	**215,584**
Charge for the year	**6,614**	**12,602**	**11,146**	**6,776**	**739**	**98**	**-**	**37,975**
Transfers	**-**	**28**	**-**	**(18)**	**-**	**(10)**	**-**	**-**
Disposals/retirement	**-**	**-**	**-**	**-**	**(1,284)**	**-**	**-**	**(1,284)**
31 December 2020	**43,562**	**84,254**	**75,714**	**41,697**	**6,575**	**473**	**-**	**252,275**
Carrying amount								
31 December 2020	**140,171**	**570,632**	**366,987**	**88,201**	**1,866**	**1,671**	**114,727**	**1,284,255**
31 December 2019	137,892	551,892	369,785	91,859	2,342	1,741	115,298	1,270,808

Construction work-in progress includes works which are in different stages of completion and relates to (a) construction and upgrading of substations and feeders, (b) electrical transmission works networks, (c) extension of power supply, (d) furniture and fixtures, computers and software, and (e) other common assets.

7(a) Intangible assets -software

	2020 RO'000	2019 RO'000
Cost		
At 1 January	**3,589**	2,382
Additions during the year	**130**	1,207
	3,719	3,589
Accumulated amortization		
At 1 January	**2,275**	1,755
Charge for the year	**501**	520
	2,776	2,275
Net carrying amount at end of the year	**943**	1,314

7(b) Right of use assets

At 1 January	**13,816**	14,041
Additions during the year	**-**	128
Depreciation expense	**(355)**	(353)
	13,461	13,816

Right of use assets pertain to the various lands leased from Ministry of Housing.

8 Contract assets and liabilities

	2020 RO'000	2019 RO'000
Contract assets	**10,106**	9,750
Less: Provision for impairment	**(38)**	(14)
Net contract assets	**10,068**	9,736
Less: Current portion	**(39)**	(150)
Non-current contract assets	**10,029**	9,586
Provision for impairment		
At 1 January	**14**	11
Charge for the year	**24**	3
	38	14
Movement in contract assets-Gross		
At 1 January	**9,750**	9,511
Aggregate amount of the transaction price allocated to contract for which performance obligation was completed during the year	**356**	239
	10,106	9,750
Contract liabilities	**8,510**	6,787
Less: current portion	**(152)**	(166)
Non-current portion	**8,358**	6,621
Movement in contract liabilities		
At 1 January	**6,787**	5,543
Aggregate amount of the transaction price allocated to contract for which performance obligation was completed during the year	**1,723**	1,244
	8,510	6,787

There are no significant changes in the contract assets and contract liabilities during the reporting year. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Company issues a billing document to the customer related to connection assets. The contract liabilities will be recognised as revenue when the Company performs under the contract, which is expected to occur in future years.

9 Inventories

	2020 RO'000	2019 RO'000
General spares	**5,694**	5,536
Provision for inventories obsolescence	**-**	(32)
	5,694	5,504
Movement in provision for inventories obsolescence:		
At 1 January	**32**	-
Recognised during the year	**-**	32
Write-off	**(32)**	-
	-	32

The inventories are comprised of spares which are used for the maintenance of transmission network of the Company in the ordinary course of business.

10 Other current assets

	2020 RO'000	2019 RO'000
K factor deferred revenue	**5,471**	1,781

	2020 RO'000	2019 RO'000
Opening	**1,781**	1,376
Current year K Factor	**3,690**	405
Closing	**5,471**	1,781

Other current assets represent revenue receivable on account of shortfall of actual regulated revenue over maximum allowed revenue as per price control formula. (Refer note 24).

11 Trade and other receivables

	2020 RO'000	2019 RO'000
Trade and other receivables from related parties (note 30)	**24,830**	14,399
Trade receivables - other customers	**1,821**	1,786
Less: Provision for impairment	**(103)**	(63)
	26,548	16,122
Advances	**2,481**	3,211
Prepayments	**1,278**	533
	30,307	19,866

Provision for impairment

	2020	2019
At 1 January	**63**	9
Charge for the year	**40**	54
	103	63

12 Cash and cash equivalents

	2020 RO' 000	2019 RO' 000
Cash in hand	**8**	6
Cash at bank	**53,400**	21,101
Cash and cash equivalents in the statements of cash flow	**53,408**	21,107
Less: Provision for impairment	**(199)**	(24)
Cash and cash equivalents in the statement of financial position	**53,209**	21,083

Movement in provision for impairment

	2020	2019
At 1 January	**24**	1
Charge for the year	**175**	23
	199	24

13 Share capital

The Company's authorized, issued and paid up capital as on 31 December 2020 and 31 December 2019 consists of 225,000,000 shares of RO 1 each. The details of the shareholders are as follows:

	31 December 2020			31 December 2019		
	Percentage of shareholding	**Number of shares issued**	**RO**	Percentage of shareholding	Number of shares issued	RO
Nama Holding Company SAOC	**50.990%**	**114,727,500**	**114,727,500**	99.990%	224,977,500	224,977,500
Nama Shared Services LLC	**0.005%**	**11,250**	**11,250**	0.005%	11,250	11,250
Numo Institute of Competency Development LLC	**0.005%**	**11,250**	**11,250**	0.005%	11,250	11,250
State Grid International Development Singapore Private limited	**48.999%**	**110,249,999**	**110,249,999**	-	-	-
SGID Singapore Oman Asset Private limited	**0.001%**	**1**	**1**	-	-	-
	100%	**225,000,000**	**225,000,000**	100%	225,000,000	225,000,000

14 Legal reserve

The legal reserve, which is not available for distribution is accumulated in accordance with Article 132 of the Commercial Companies Law of 2019. The annual appropriation must be 10% of the net profit for each year after taxes, until such time as the reserve amounts to at least one third of the share capital. No further portion from the profit has been made during the year as the Company has already achieved this minimum amount required in the legal reserve. This reserve is not available for distribution.

15 General reserve

In previous years an amount of RO 250,000 has been transferred to general reserves from the profits of the Company as allowed under Article 133 of the Commercial Companies Law of 2019. No further transfers to the general reserves are proposed to be made.

16 Long term borrowing

In 2015, the Company obtained long-term loan of USD 1 billion (approximately RO 385 million) from M/s Lamar Funding Limited by issue of an unconditional and irrevocable guarantee dated 7 May 2015 (the "Deed of Guarantee"). The loan is repayable on or about 5 May 2025 and interest on the loan is payable on a half yearly basis on or about 5 May and 5 November of each year.

M/s Lamar Funding Limited, an exempted Company incorporated in Cayman Islands, issued USD 1 billion 3.958% Guaranteed Notes due on 7 May 2025, listed on Irish Stock Exchange and provided the proceeds of the issue as a loan to the Company with the benefit of the Deed of Guarantee. The notes are rated Ba3 by Moodys Investor Services Ltd. and "BB-" by Fitch Ratings Limited. There is no re-payment of loan principal during the year.

In 2017, the Company obtained a further long-term loan of USD 500 million (approximately RO 192.5 million) from M/s OmGrid Funding Limited by issue of an unconditional and irrevocable guarantee dated 16 May 2017 (the "Deed of Guarantee"). The loan is repayable on or about 16 May 2027 and interest on the loan is payable on a half yearly basis on or about 16 February and 16 August of each year.

M/s OmGrid Funding Limited, an exempted Company incorporated in Cayman Islands, issued USD 500 million 5.196% Guaranteed Notes due on 16 May 2027, listed on Irish Stock Exchange and provided the proceeds of the issue as a loan to the Company with the benefit of the Deed of Guarantee. The notes are rated Ba3 by Moodys Investor Services Ltd. and "BB-" by Fitch Ratings Limited. There is no re-payment of loan principal during the year.

	2020	2019
	RO '000	RO '000
Long-term loans	**577,575**	577,575
Less: unamortized transaction cost	**(1,893)**	(2,339)
Carrying value of long-term loans	**575,682**	575,236
Transaction cost		
As at 1 January	**2,339**	2,805
Less: transaction cost amortized during the year	**(446)**	(466)
	1,893	2,339

17 Provisions for employees' benefits

	2020 RO '000	2019 RO '000
Non-current		
Employees' benefits	**765**	1,015
Current		
Employees' benefits	**414**	553

Movement in provision for employees' benefits

At 1 January	**1,568**	1,393
(Reversal)/charge for the year - note 26 (a)	**(34)**	273
Payments made during the year	**(355)**	(98)
	1,179	1,568

18 Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate of 15% (2019 - 15%). The net deferred tax liability in the statement of financial position and the net deferred tax charge to profit or loss are attributable to the following items:

	At 1 January 2020 RO '000	Charge / (credit) for the period RO '000	At 31 December 2020 RO '000
Liability / (Assets)			
Provision for impairment as per IFRS 9	**(15)**	**(36)**	**(51)**
Right of use assets - net of lease liability (IFRS 16)	**(44)**	**(43)**	**(87)**
Provision for inventories obsolescence	**(5)**	**5**	**-**
Transaction costs	**352**	**(67)**	**285**
Accelerated tax depreciation	**72,903**	**7,242**	**80,145**
Net deferred tax liability	**73,191**	**7,101**	**80,292**

18 Deferred tax liability *(continued)*

	At 1 January 2019	Charge / (credit) for the year	At 31 December 2019
	RO '000	RO '000	RO '000
Liability / (Assets)			
Provision as per IFRS 9	(3)	(12)	(15)
Right of use assets - net of lease liability (IFRS 16)	-	(44)	(44)
Provision for inventory obsolescence	-	(5)	(5)
Transaction costs	-	352	352
Accelerated tax depreciation	64,367	8,536	72,903
Net deferred tax liability	64,364	8,827	73,191

19 Deferred revenue

Deferred revenue represents government sponsored projects funding and customer contributions towards the cost of the property, plant and equipment (connection assets). Funding from government sponsored projects represents unconditional grant received/receivable from government/ government authorities for construction of the assets.

Customer contributions are deferred over the terms of the contract as these relate to connecting the customers to the Company's network as well as providing the customer with ongoing access to the Company's network as per the terms of Electrical Connection Agreements (ECA).

Non-current

	2020	2019
	RO '000	RO '000
Customers contributions towards cost of connection assets	**1,976**	2,145
Advance application fees received	**4,630**	5,678
Funding for Government sponsored projects	**55,364**	56,471
	61,970	64,294

Current

Customers contributions towards cost of connection assets	**1,051**	1,063
Funding for Government sponsored projects	**1,109**	1,112
	2,160	2,175

20 Lease liabilities

	2020 RO '000	2019 RO '000
Maturity analysis-contractual undiscounted cash flows		
Within one year	**969**	966
Later than one year but not later than five years	**3,877**	3,864
More than five years	**33,870**	34,347
Total undiscounted lease liabilities	**38,716**	39,177
Future finance charges	**(24,681)**	(25,071)
Lease liabilities	**14,035**	14,106

Lease liabilities included in the statement of financial position

	2020 RO '000	2019 RO '000
Current	**969**	966
Non-current	**13,066**	13,140
	14,035	14,106

	2020 RO '000	2019 RO '000
Amount recognized in profit or loss		
Depreciation expense on right of use assets (note 7b)	**(355)**	(353)
Interest on lease liabilities (note 28)	**(898)**	(903)
	(1,253)	(1,256)

Amount recognized in the statement of cash flows

	2020 RO '000	2019 RO '000
Repayment of lease liabilities	**(969)**	(966)

21 Trade and other payables

	2020 RO '000	2019 RO '000
Non-current		
Other payables	**7,109**	7,433
Current		
Trade payables	**28,180**	18,902
Accruals and other payables	**23,348**	37,720
Due to related parties (note 30)	**132**	870
	51,660	57,492

Other payables represent retention payables for capital work-in-progress contracts.

22 Short term borrowings

	2020	2019
	RO ’000	RO ’000
Borrowings	**100,090**	65,073

The Company has working capital facilities of RO 10 million and bridge loan facilities of RO 100 million (USD 260 million) from Bank Muscat SAOG and consortium of four banks at interest rate of 3.40% per annum (2019: 3.25% per annum) and LIBOR + 1.5% (2019: 1.8% to 2%), respectively.

The unutilized amount as at reporting date is RO 10 million. These facilities are available up to 30 September 2021 and 22 January 2021, respectively.

23 Other current liabilities

	2020	2019
	RO ’000	RO ’000
Deferred regulated revenue	**8,661**	2,121
Opening	**2,121**	-
Current year deferred regulated revenue	**6,540**	2,121
Closing	**8,661**	2,121

Deferred regulated revenue represents difference between allowed capex under price control review and actual capex incurred.

24 Revenue

	2020	2019
	RO ’000	RO ’000
Transmission use of system charges (note 30)	**102,894**	104,696
Transmission connection charges (TCC)	**28,642**	27,498
IFRS impact on Transmission Connection Charges	**(1,366)**	(816)
	130,170	131,378
Add/(less): revenue shortfall/(excess) compared to maximum allowed revenue as per the price control formula	**3,690**	405
Revenue adjustment for RAB actualization	**(6,540)**	(2,615)
Reclassification of financing portion to finance income (note 28)	**(15,098)**	(14,232)
	112,222	114,936

(a) Timing of revenue recognition

Revenue from transmission use of system charges are recognised at a point in time when performance obligations are satisfied that the services are completed. Whereas revenue from transmission connection charges are recognised over the time when performance obligations are satisfied that the services are completed.

25 Operating costs

	2020 RO'000	2019 RO'000
Depreciation on Property, Plant and equipment (note 7)	**37,236**	34,120
Depreciation on right of use assets (note 7b)	**355**	353
GCC Interconnection charges	**1,457**	882
Maintenance and repairs expenses	**2,924**	2,864
Spares and consumable expenses	**178**	295
Other direct cost	**-**	61
	42,150	38,575

26 General and administrative expenses

	2020 RO'000	2019 RO'000
Employees' benefit expenses - note 26(a)	**9,067**	9,966
Service expenses	**3,398**	4,537
Depreciation on Property, Plant and equipment (note 7)	**739**	1,091
Amortization of intangible assets (note 7a)	**501**	520
Directors remuneration and sitting fees (note 30)	**41**	60
Other expenses	**797**	931
	14,543	17,105

26 (a) Employees' benefit expenses

Salaries and wages	**5,067**	4,884
Allowances and other benefits	**3,271**	3,912
Termination and other benefits (note 17)	**(34)**	273
Contribution towards pension and long-term benefits	**763**	897
	9,067	9,966

The number of employees as at 31 December 2020: 360 (31 December 2019: 349).

27 Other income

	2020 RO'000	2019 RO'000
Sale of scrap, contract forms and tenders	**539**	736
Deferred revenue recognition from government sponsored projects	**1,109**	1,112
Penalties, fines and forfeits	**2**	1
Gain on disposal of property, plant and equipment	**238**	56
	1,888	1,905

28 Finance income and costs

	2020	2019
Finance costs	**RO'000**	RO'000
Interest on long term borrowings (note 16)	**23,605**	22,198
Interest on short term borrowings (note 22)	**1,274**	1,534
Amortization of transaction cost (note 16)	**446**	465
Interest on lease liabilities (note 20)	**898**	903
Other finance cost	**452**	124
	26,675	25,224
Finance income		
Interest on deposits	**128**	57
Financing portion of TCC (note 24)	**15,098**	15,048
	15,226	15,105

29 Taxation

Income tax is provided as per the provisions of the "Law of Income Tax on Companies" in the Sultanate of Oman after adjusting for items which are non-taxable or disallowed. The deferred tax on all temporary differences have been calculated and dealt with in the profit or loss. (Refer note 18)

	2020	2019
	RO'000	RO'000
Deferred tax:		
Current period (note 18)	**7,101**	8,827
Movement in current tax provisions is as follows:		
At 1 January	**1,344**	1,344
At 31 December	**1,344**	1,344

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the enacted tax rate of 15% (2019: 15%) on taxable income. The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rate with the income tax expense for the year:

29 Taxation *(Continued)*

	2020	2019
	RO ‘000	RO ‘000
Accounting profit before tax	**45,729**	50,962
Tax on accounting profit before tax at 15%	**6,859**	7,644
Add tax effect of:		
Tax impact of non-deductible expense	**3**	3
Unrecognized deferred tax on tax losses	**244**	759
Deferred tax relating to prior year	**(5)**	421
Tax charge as per statement of profit or loss	**7,101**	8,827

In the current period after the adjustment of expenses as per tax law, the Company is in tax loss position accordingly no current tax has been recorded in the current period. Deferred tax assets of RO 8,885,798 (2019: 6,198,444) on carry forward tax losses for the current period has not been recognized as management understands that there are remote chances of having taxable income in future years due to higher tax depreciation charge which would result in a lapse of current period carry forward losses.

Tax assessments for the years 2016 to 2019 are pending agreement with the Oman taxation authorities. The management considers that the amount of additional taxes, if any, that may become payable on finalisation of assessment of the open tax years would not be significant to the Company’s financial position at 31 December 2020.

The Board of Directors are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Company's financial position as at 31 December 2020.

30 Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which these related parties have the ability to control or exercise significant influence in financial and operating decisions.

The Government is a related party of the entity as it is the ultimate controlling party. The entity in the ordinary course of business transacts with other government owned entities. However, in view of the exemption from disclosure requirements set out in IFRS in relation to related party transactions and outstanding balances with the government, that has control or joint control of, or significant influence over the Company and an entity that is a related party of the same government, the Company has applied the exemptions in IAS 24, related to government entities and only disclosed certain information to meet the disclosure requirements of IAS 24.

The Company entered into transactions in the ordinary course of business with related parties on mutually agreed terms, other affiliates and parties in which certain members and senior management have a significant influence (other related parties).

30 Related parties *(continued)*

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions and are entered into at terms and conditions which are approved by the management.

The details of transactions with related parties are as follows:

The Usufruct agreement was entered into with the Ministry of Housing for a grant of usufruct rights in respect of use of lands for 25 years ("Initial Term"), with the option of an extension for a further period of 25 years. Please refer to note 7 a for Right of use assets pertain to the various lands leased from Ministry of Housing (MOH).

Following is the summary of significant transactions with related parties during the period:

(i) Amount due from related parties (note 11)

Related parties under common ownership	**2020 RO'000**	2019 RO '000
Electricity Holding Company SAOC	**-**	-
Muscat Electricity Distribution Company SAOC	**2,048**	7,972
Mazoon Electricity Company SAOC	**16,151**	5,531
Majan Electricity Company SAOC	**5,333**	-
Al Ghubrah Power and Desalination Company SAOC	**170**	190
Wadi Al Jizzi Power Company SAOC	**333**	333
Rural Areas Electricity Company SAOC	**13**	11
Dhofar Power Company SAOC	**782**	362
	24,830	14,399

These balances represent revenue and other reimbursements from other entities of the group arising in the normal course of business and repayable on demand and are interest free.

(ii) Amount due to related parties (note 21)

	2020 RO'000	2019 RO '000
Holding Company		
Electricity Holding Company SAOC	**114**	467
Related parties under common ownership		
Numo Institute of Competency Development LLC	**9**	2
Nama Shared Services LLC	**2**	11
Mazoon Electricity Company SAO	**5**	5
Majan Electricity Company SAOC	**-**	383
Rural Areas Electricity Company SAOC	**2**	2
	132	870

These balances represent costs incurred by other entities of the group on behalf of the Company and services received by the Company. These balances are repayable on demand and are interest free.

30 Related parties *(continued)*

(iii) Income

Related parties under common ownership	**2020**	2019
	RO '000	RO '000
Transmission use of system charges (note 24)	**102,894**	104,696
Transmission connection charges (note 24)	**11,570**	11,034
Financing portion of TCC (note 28)	**14,195**	14,158
	128,659	129,888

Party wise breakup of transmission use of system charges is below:

Muscat Electricity Distribution Company SAOC	**35,544**	39,130
Mazoon Electricity Company SAOC	**34,728**	34,289
Majan Electricity Company SAOC	**24,589**	22,730
Dhofar Power Company SAOC	**8,033**	8,547
	102,894	104,696

Party wise breakup of transmission connection charges is below:

Muscat Electricity Distribution Company SAOC	**9,801**	9,407
Mazoon Electricity Company SAOC	**8,376**	7,978
Majan Electricity Company SAOC	**5,249**	5,325
Dhofar Power Company SAOC	**2,316**	2,482
Rural Areas Electricity Company	**23**	-
	25,765	25,192

Party wise breakup of the financing portion of transmission connection charges is below:

Muscat Electricity Distribution Company SAOC	**5,370**	5,323
Mazoon Electricity Company SAOC	**2,919**	4,518
Majan Electricity Company SAOC	**4,647**	3,010
Dhofar Power Company SAOC	**1,259**	1,307
	14,195	14,158

(iv) Expenses

	2020	2019
	RO '000	RO '000
IT support from Nama Shared Services LLC - Associated Undertaking	**329**	311
Training services from Numo Institute of Competency Development LLC - Associated Undertaking	**94**	97
Accounting services from Electricity Holding Company SAOC – The Holding Company	**32**	37
	455	445

30 Related parties *(continued)*

(v) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise). The compensation for key management personnel during the period/year is as follows:

	2020	2019
	RO'000	RO '000
Short term employee benefits	**813**	961
Post-employment benefits	**57**	67
Directors remuneration and sitting fees (note 26)	**41**	60
	911	1,088

31 Dividends

The Board of Directors of the Company at their meeting held on 25 February 2021 have proposed a cash dividend at 60% of net profit for the year ended 31 December 2020, (2019: 50% of net profit was paid as dividend). This dividend is subject to the approval of the Company's shareholders in the Company's Annual General Meeting.

In 2020, the Company has declared RO 21 million (2019: RO 15.749 million relating to the financial year ended 31 December 2018) dividend relating to the financial year ended 31 December 2019 as approved by the Company's shareholders in annual general meeting held on 13 April 2020.

32 Commitments

At 31 December 2020, the Company had capital commitments of RO 122.262 million (December 2019: RO 57.196 million), towards assets under construction.

33 Contingent liabilities

As on 31 December 2020, there are five civil cases filed against the Company by citizens seeking compensation of approximately RO 1,176,590 (31 December 2019: RO 920,782), for electricity lines and cables passing through their lands and for similar claims. The Management believes that, as it has been awarded the Right of Way (RoW) by the competent Government authorities, these claims are not tenable and the payment of compensation, if any, is the responsibility of the concerned Government authorities. Previous similar cases were also filed against the Company have been awarded in favor of the Company. Accordingly, no provision is required to be made in the financial statements.

34 Segment information

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO) and executive management team that makes strategic decisions.

Segment information

The CEO and executive management team is the Company's chief operating decision-maker. Management has determined the operating segments based on the information provided to them for the purposes of allocating resources and assessing performance.

The principal activities of the Company are electricity transmission and dispatch in the Oman. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on geographical regions. Therefore, management of the Company have chosen to organize the Company based on regions. No operating segments have been aggregated in arriving at the reportable segments of the Company.

Geographically, management considers the performance in Main Interconnected System (the MIS) which includes the northern area of Oman (MIS) and Dhofar region.

Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment.

31 December 2020	**MIS RO '000**	**Dhofar RO '000**	**Total RO '000**
Revenue	**103,023**	**9,199**	**112,222**
Operating costs	**(39,222)**	**(2,928)**	**(42,150)**
Gross profit	**63,801**	**6,271**	**70,072**
General and administrative expenses	**(13,159)**	**(1,384)**	**(14,543)**
Impairment on financial assets	**(239)**	**-**	**(239)**
Other income	**1,699**	**189**	**1,888**
Profit from operations	**52,102**	**5,076**	**57,178**
Finance income	**13,967**	**1,259**	**15,226**
Finance costs	**(24,699)**	**(1,976)**	**(26,675)**
Profit before tax	**41,370**	**4,359**	**45,729**
Taxation	**-**	**-**	**(7,101)**
Total comprehensive income for the year	**41,370**	**4,359**	**38,628**

34 Segment information *(continued)*

Segment revenues and results *(continued)*

31 December 2019	MIS RO ’000	Dhofar RO ’000	Total RO ’000
Revenue	104,353	10,583	114,936
Operating costs	(35,572)	(3,003)	(38,575)
Gross profit	68,781	7,580	76,361
General and administrative expenses	(15,498)	(1,607)	(17,105)
Reversal of impairment on financial assets	(80)	-	(80)
Other income	1,716	189	1,905
Profit from operations	54,919	6,162	61,081
Finance income	14,455	650	15,105
Finance costs	(23,249)	(1,975)	(25,224)
Profit before tax	46,125	4,837	50,962
Taxation	-	-	(8,827)
Total comprehensive income for the year	46,125	4,837	42,135

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment revenue in the current and prior year.

The accounting policies of the reportable segments are the same as the Company’s accounting policies described in note 4.

Segment profit represents the profit before tax earned by each segment after allocation of central administration costs and directors' salaries, investment income, other gains and losses, as well as finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

31 December 2020	**MIS** **RO ’000**	**Dhofar** **RO ’000**	**Total** **RO ’000**
Total assets	**1,314,289**	**89,119**	**1,403,408**
Total liabilities	**823,574**	**89,119**	**912,692**
31 December 2019			
Total assets	1,259,490	84,418	1,343,908
Total liabilities	786,402	84,418	870,820

34 Segment information *(continued)*

Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments other than borrowings, 'other financial liabilities', current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Other segment information

31 December 2020	**MIS** **RO ’000**	**Dhofar** **RO ’000**	**Total** **RO ’000**
Depreciation and amortization	**36,154**	**2,677**	**38,831**
Additions to non-current assets	**44,772**	**6,779**	**51,551**
31 December 2019			
Depreciation and amortization	33,527	2,557	36,084
Additions to non-current assets	62,574	357	62,931

Revenue from major products and services

The following is an analysis of the Company's major revenue from its operations.

31 December 2020	**MIS** **RO ’000**	**Dhofar** **RO ’000**	**Total** **RO ’000**
Transmission use of system charges	**94,861**	**8,033**	**102,894**
Connection charges	**24,851**	**2,425**	**27,276**
Revenue shortfall compared to MAR	**3,690**	**-**	**3,690**
Revenue adjustment for RAB actualization	**(6,540)**	**-**	**(6,540)**
Reclassification of financing portion to finance income	**(13,839)**	**(1,259)**	**(15,098)**
	103,023	**9,199**	**112,222**

34 Segment information *(continued)*

Revenue from major products and services *(continued)*

31 December 2019	MIS RO '000	Dhofar RO '000	Total RO '000
Transmission use of system charges	96,149	8,547	104,696
Connection charges	24,055	2,626	26,681
Revenue shortfall / (excess) compared to MAR	517	(112)	405
Revenue adjustment for RAB actualization	(2,615)	-	(2,615)
Reclassification of financing portion to finance income	(13,753)	(478)	(14,231)
	104,353	10,583	114,936

35 Information about major customers

Included in revenues arising from transmission use of system, connection charges of RO 102.89 million (2019: RO 104.70 million), RO 25.86 million (2019: RO 25.19 million) and financing component of RO 14.20 million (2019: 14.16) respectively which arose from the Company's four major customers. That are related parties of the Company (Note 30)

36 Cash flows from financing activities

	As at 1 January 2020 RO'000	**Acquisition of loan RO'000**	**Repayments RO'000**	**Amortization of transaction cost RO'000**	**As at 31 December 2020 RO'000**
Short term borrowings	**65,073**	**100,090**	**(65,073)**	**-**	**100,090**
Long term borrowings	**575,236**	**-**	**-**	**446**	**575,682**
	640,309	**100,090**	**(65,073)**	**446**	**675,772**

37 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

	2020	2019
	RO'000	RO'000
Profit for the period	**38,628**	42,135
Weighted average number of shares outstanding	**225,000**	225,000
Earnings per share basic	**0.172**	0.187

No separate figure for diluted earnings per share has been presented as the Company has not issued any instruments, which would have an impact on earnings per share when exercised.

38 COVID 19 update

During the year the global outbreak of Covid-19 had severely impacted businesses and economies worldwide. COVID-19 outbreak has been considered as pandemic and has affected the supply chain of the Company due to the slump in the demand of electricity in the commercial and industrial sectors due to the safety measures adopted by the Government to combat the outbreak. However, the drop-in demand in commercial and industrial sectors was off set with the increase in demand in residential sectors due to which the management believes that pandemic has not impacted the financial performance and financial position.

The situation is fast evolving and management has considered all the uncertainties into account for the assessment of impact on the financial position and performance and believes that the Company has sufficient liquidity available to continue to meet its financial commitments for the foreseeable future when they become due.

39 Subsequent events

On February 3, 2021, Oman Electricity Transmission Company SAOC successfully secured, through Oryx Funding Limited, priced its debut Reg S/144A US$600 million 10-year bond issuance. The interest rate was set at 5.8% per annum. The issuance was rated Ba3 (Negative) by Moody's and BB- (Negative) by Fitch. The profit rate payments are due on 3 February and 3 August every year during the tenure of the Certificate and the Certificates are due for payment in full on 3 February 2031. The Certificates are listed on the Irish Stock Exchange.