

Prime Minister's Decree

No: 636/2024

To amend some Egyptian accounting standards

Prime minister:

In pursuance of the constitution,

And The Law of Joint Stock Companies, Partnerships Limited by Shares, and Limited Liability Companies, and Sole Proprietorship issued by Law No. 159 of 1981,

And the capital market law NO: 95/1992,

And the Law No. 10/2009 regulating the Supervision of Non-Banking Financial Markets and Instruments,

And the Presidential Decree No. 269/2018 to form the Ministry,

And the Presidential decree No. 279/2018 for authorizing the Prime minister in some competencies,

And the Presidential decree No. 655/2019,

And the prime minister decree No. 2115/2023 about reforming the standing committee for Egyptian accounting standards and the Egyptian standards on auditing, limited review and other Assurance services,

And the investment minister decree No. 110/2015 about Egyptian accounting standards,

And, after viewing what was presented by the chairman of financial Regulatory Authority,

Decided to:

(Article 1)

The Egyptian accounting standards No. 13 "The effects of changes in foreign exchange rates," No. 17 "separate financial statements" and No. 34 "real estate investment" shall be substituted with the attached standards.

(Article 2)

The Egyptian Accounting Explanation No. 2, "Certificates of Carbon Emissions Reduction (carbon credits) shall be added to the Egyptian Accounting Standards.

(Article 3)

This decree shall be published in the Official Gazette, and shall be enforced on the day following its publication.

The prime minister:

Dr/ Mostafa Kamal Madboly.

Explanation No. 2/2024

Certificates of carbon emissions reduction "Carbon Credits"

References:

The Egyptian accounting standards No. 1 "Presentation of Financial Statements".

The Egyptian accounting standards No. 5 "Accounting Policies, Changes in Accounting Estimates and Errors."

The Egyptian accounting standards No. 23 "Intangible Assets."

The Egyptian accounting standards No. 24 "Deferred Tax."

The Egyptian accounting standards No. 47 "Financial Instruments."

The Egyptian accounting standards No. 48 "Revenue from contracts with Customers."

1- Introduction

The establishment of "The voluntary Carbon Market for Africa" in Egypt was announced at COP 27, held on Sharm-el sheikh in 2022. This summit marked a collaborative effort between the Financial Regulatory Authority, the Egyptian-exchange and the Egyptian Ministry of Environment. The first African voluntary market for trading carbon credits was subsequently launched on the Egyptian Stock Exchange in the light of the Cabinet Decision No. 4664 of 2022, which amended some provisions of the executive Regulations of the Capital Market Law promulgated by Law No. 95 of 1992. This decision formally recognized carbon credits as financial instruments eligible for registration and trading on the Egyptian Exchange.

2- Definitions

2-1 Certificates of carbon emissions reduction (Carbon Credits)

Carbon credits are tradable financial instruments representing greenhouse gas emission reduction units, where each credit represents "one" tonne of greenhouse gas equivalent (CO₂e). Carbon credits are issued to the developer of the reduction project after the completion of verification and validation processes that shall be implemented in accordance with internationally recognized carbon emission reduction standards and

methodologies carried out by domestic or international verification and validation bodies (VVBs) registered in the Authority's record prepared for this purpose.

2-2 Standard Programs Setters: are the entities setting out the basis and methodologies for measuring carbon emission reductions according to internationally recognized methodologies, including the United Nations Framework Convention on Climate Change (UNFCCC) methodologies and the methodologies adopted by the International Carbon Reduction and Offset Alliance (ICORA), or in accordance with the methodologies adopted locally by the relevant government agencies.

2-3 Carbon Credits Registries: Electronic, centralized data repositories including records of the issuance, registration, and tracking ownership transfer of carbon credits resulting from the implementation of carbon emission reduction projects in accordance with methodologies established by Standard Programs Setters.

2-4 Entities Establishing Voluntary Carbon Registries: Owners, custodians, and managers of voluntary carbon registries.

2-5 Validation & Verification Bodies (VVBs): Entities carrying out validation and verification processes to ensure the compliance of the projects with requirements of reduction standards and methodologies approved by Standard Programs Setters.

2-6 Traders: who trading on Certificates of carbon emissions reduction (buying and selling) for a commission.

2-7 Project Developers: Entities responsible for implementing carbon reduction projects under which carbon credits are issued in the Carbon Credits Registries after obtaining the required approval of Validation and Verification Bodies. The project's developer may be the primary owner of the project and may be the developer Non-project owner (to finance/implement the project against a specific share of the project Carbon credits agreed with the owner).

3- Applications

Companies can utilize carbon credits to achieve their targeted voluntary emission reduction goal aiming for carbon neutrality or any other environmental-related goals.

4- Carbon credits lifecycle and issuance process.

The carbon credits issuance process in the VCM can be summarized as follows:

1- Establishment of the carbon credits

The developer of the carbon emission reduction project (owner/non-owner) should prepare a project design document in accordance with one of the voluntary carbon registers mandates, which is authorized supervisory authorities.

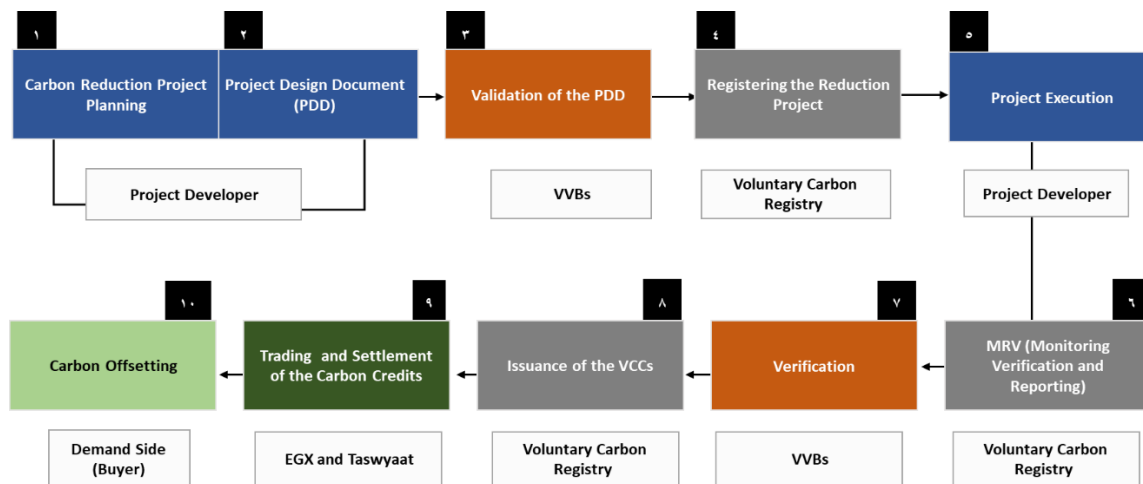
- 2- The developer shall select one of the approved verification and validation bodies recognized by the project's carbon registry and licensed by the competent authorities, to perform the verification and validation of the reduction project.
- 3- The project developer shall register the project on the voluntary carbon registry after the completion of the validation process.
- 4- The project developer should implement the carbon reduction project.
- 5- The selected verification body then verify the authenticity of the project.
- 6- The carbon credits are issued via carbon registry for the favor of the project developer.

A) Trading of carbon credits:

The carbon credits are tradable or transferable across the accounts in the same registry. The carbon credits ownership can be transferred from the project developer accounts to merchants and end users through voluntary carbon credit trading platforms.

c) Retirements of carbon credits.

When carbon credits are owned and utilized to reduce institution emissions, the owner should notify to the registry to retire these credits preventing their reuse by any other entity.



5- Scope of the accounting treatment.

The appropriate accounting treatment for carbon credits will vary depending on the nature of the arrangement and the commercial purpose for acquiring or issuing the credits by the project developer. Accordingly, companies should carefully examine the facts and circumstances of each transaction to determine the appropriate accounting treatment and the correct accounting standard to be applied.

The arrangement nature and commercial purpose for buying these assets usually are the basis of accounting treatment, including the accounting standard to be applied.

6- Actions should be taken by management in determining the appropriate accounting treatment:

- a) Understanding the issuance cycle of carbon credits.
- b) Understanding the arrangement nature and commercial purpose for buying or issuing the carbon credits.
- c) Determine the classification of carbon credits according to the arrangement nature and commercial purpose, (whether to be held as an asset or as an intangible asset).

Provide clear and meaningful disclosures of voluntary carbon credits and accounting policies applicable to them.

7- Accounting treatment determinants:

Accounting treatment is to be determined by the arrangement nature and commercial purpose for the utilization of these credits, in accordance with the following cases:

- a) The case where carbon credits are issued and allocated to the developer/financier of the carbon reduction project (where project developer is the legal owner of the project)
- b) The case where carbon credits are issued and allocated to the developer/financier of the carbon reduction project (where project developer are not the legal owner of the project)
- c) The case where credits are issued to be utilized to achieve carbon neutrality (to be used for internal usage for retirement-Offsetting).
- d) The case of purchase carbon credits for trading purpose.

8- Accounting treatments.

8-1 a) The case where carbon credits are issued and allocated to the developer/financier of the carbon reduction project (where project developer is the legal owner of the project)

8-1-1 initial measurement:

- a) Upon issuance, carbon credits shall be allocated directly to the issuer (owner of the project). In the event such credits are to be utilized for internal purposes exclusively, they shall be recognized as intangible assets and their value shall be recorded on the entity's equity section of the balance sheet, under the "Carbon Credits Reserve" category, and valued at the actual cost basis.
- b) As for those carbon credits intended for sale, they shall be treated in accordance with the Egyptian accounting standard No. (47) Financial tools based on actual cost.

8-1-2 Subsequent Measurement:

- a) Subject to subsequent measurement in the case mentioned in subsection (a) above, the carbon credits shall be dealt with in accordance with the requirements of Egyptian Accounting Standard No. (23) Intangible Assets. Carbon credits' reserves

should be reduced to reflect the depreciation or impairment of the carbon credits analogously to intangible assets

- b) Carbon credits subject to the case mentioned in subsection (b) above - subsequent measurement, are to be dealt with in accordance with the Egyptian accounting standard No. 47 – Financial Instruments, and to be presented under financial instruments section valued at fair value through statement of comprehensive income. It is also possible to list these credits in the Egypt's exchange Market as financial instruments with their value estimated at fair value through profit or loss.

8-1-3 Elimination from the accounting books

- a) When carbon credits are retired upon achieving carbon neutrality or any other company goal, the balance of used carbon credits shall be settled by transferring them to a designated "Carbon Credit Reserve" account. Subsequently, these credits in the Carbon Credit Reserve account shall be reconciled to the entity's retained earnings/loss account.
- b) Upon the disposal of Carbon Credits through sale, their balances shall be reconciled in accordance with Egyptian Accounting Standard No. 47, which governs financial instruments.

8-2 b) The case where carbon credits are issued and allocated to the developer/financier of the carbon reduction project (they are not the legal owner of the project)

8-2-1 initial measurement:

In Consistent with the above, when carbon credits are owned by the developer or financier of the carbon emission reduction project, they shall be recognized as financial instruments in accordance with Egyptian Accounting Standard No. 47, and are to be valued based on actual cost.

8-2-2 subsequent measurement:

Following their initial recognition, carbon credits shall be valued according to Egyptian Accounting Standard No. 47 "Financial Instruments." This standard dictates that financial instruments be presented at fair value through profit or loss in the statement of

comprehensive income. Notably, these carbon credits can be actively traded on the Egyptian exchange, further solidifying their classification as financial instruments measured at fair value with any gains or losses recognized in current earnings.

8-2-3 Elimination from the accounting books:

In the case of eliminate the balances of carbon credits, these balances are settled in accordance with the rules for the exclusion of financial instruments as set out in accounting standard No. 47

8-3 c) The case where credits are issued to be utilized to achieve carbon neutrality (to be used for internal usage for retirement- Offsetting).

8-3-1 initial measurement:

When purchasing carbon credits from the market for the purpose of achieving carbon neutrality (internal use for retirement - offsetting), they shall be valued at their acquisition cost. This includes all expenses and fees incurred to acquire these credits. These transactions shall be accounted for in accordance with the Egyptian Accounting Standard No. 23, "Intangible Assets."

8-3-2 subsequent measurement:

In this case, the carbon credits are subject to subsequent measurement according to the requirements of Egyptian Accounting Standard No. 23, "Intangible Assets," and are consumed or canceled in accordance with the company's policies and the intended purpose of these credits.

8-3-3 Elimination from accounting books

In the event of derecognition of the balances of carbon credits, these balances within the balances of intangible assets should be reconciled, with any resulting differences recognized through P&L.

8-4 The case of purchase carbon credits for trading purpose.

8-4-1 initial measurement:

In the case of purchase carbon credits for trading, they should be valued at the acquisition cost, including all expenses and fees incurred to acquire these credits, and shall be accounted for in accordance with the Egyptian accounting standard No. 47 "financial instruments".

8-4-2 subsequent measurement:

In subsequent measurement, carbon credits are subjected to the Egyptian accounting standard No. 47 "the financial instruments" and are classified as financial instruments valued at fair value through Statement of comprehensive income. These credits could be traded in the Egyptian exchange as a financial instrument and valued at fair value through Profit and Loss (P&L).

8-4-3 Elimination from accounting books

In the case of eliminate the balances of carbon credits, they are to be dealt with in accordance with the rules for the derecognition of financial instruments as set out in accounting standard No. 47

8-5 Tax processing.

In the cases above, the Egyptian accounting standard No. 24 "Income Tax" should be applied.

8-6 Special cases.

In the event of a change in the acquisition purpose of the carbon credits, the Egyptian accounting standard No. 5 "changes in accounting policy and changes in estimates and errors" shall be applied. The carbon credit balances should be adjusted accordingly.

9- Disclosure

The Company is obliged to disclose among the complete disclosures of the financial statements about:

- Information about specific accounting policy that the company applied according to all above.

- Additional information not presented elsewhere in the financial statements, which is relevant and necessary to understand financial and non-financial information on carbon credits.
- Valuation methods and pricing bases used to evaluate carbon credits.
- The methods of depreciation used and the useful lives recognized for intangible asset items.
- The Impact of change in accounting policies, if any, in accordance with disclosures required by the Egyptian Accounting Standard No. (5) " Accounting policies and changes in estimates and errors"
- The value of additions and deductions made to the carbon credits balance during the accounting period, including the reasons and impact on the financial statements.

Adjustment made to the balance of the carbon credits during the accounting period, including the following:

- The additions or the exclusions from the accounting books.
- Changes resulting from re-evaluations and for the impairment losses during the period.

10- **Application Date:**

- The application start in or after January 2025. However, early application is permitted, with the company required to disclose this fact.