

Ezz Steel Company (S.A.E)
and its subsidiaries

Consolidated Financial Statements
Prepared in accordance with IFRS
For the year ended December 31, 2022

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements
For the year ended December 31, 2022

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**Independent Auditor's Report
To the Shareholders of Ezz Steel Company (S.A.E)
Report on the Audit of the Consolidated Financial Statements**

Qualified Opinion

We have audited the consolidated financial statements of Ezz Steel Company (S.A.E) (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

I. Valuation of investment at fair value through other comprehensive income

As disclosed in Note 10 to the consolidated financial statements, the Group invested in unquoted equity shares of Egyptian Steel with an amount of EGP 2,500 million during the year ended December 31, 2022. We have neither been provided the basis for determination of the fair value of this investment nor have we been able to satisfy ourselves with the fair value of this investment as at December 31, 2022 by any alternative procedures. In the absence of sufficient appropriate audit evidence, we were unable to determine whether any adjustments to the carrying amount of this investment were necessary at year-end. Accordingly, we unable to satisfy ourselves with the valuation of this investment as at December 31, 2022.

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 Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with International Code of Ethics for Professional Accountants (including International Independence Standards) issued by International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Independent Auditor's Report
To the Shareholders of Ezz Steel Company (S.A.E) (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

In addition to the matters described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
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Recoverability of deferred tax assets

As indicated in Note 20 to the consolidated financial statements, the Group has recognised deferred tax assets of EGP 1,785 million that mainly includes carried forward tax losses of Al Ezz Rolling Mills Company and Al Ezz Flat Steel.

Recovery of these deferred tax assets is analysed on management's estimate of availability of sufficient future taxable profits against which carried forward losses can be utilized. The future taxable profits are based on approved management's projections and are determined using certain key assumptions such as capacity utilization, gross margin percentage, inflation and interest rates.

This analysis of recovery of deferred tax assets is considered a key audit matter because estimating future taxable profits require a significant degree of judgment.

Our procedures included the following:

- Assessing the design and implementation of certain relevant controls linked to the process of recognizing and measuring deferred tax assets.
- Assessing the reasonableness of criteria and the main assumptions considered by the Group in assessing the future taxable profits necessary to offset and utilize the deferred tax balance.
- Assessing the reasonableness of the amounts to be offset in the estimated period of time, in accordance with applicable tax legislations.
- Analysing the consistency of forecast results which serve as a basis for analysing the recoverability of deferred tax assets with the business plan approved by the Group's management.
- Assessing the completeness of disclosures of consolidated financial statements as per IFRS requirements and ensuring the accuracy and adequacy of disclosures related to the deferred tax assets.

First-time adoption of the International Financial Reporting Standards (IFRSs)

The Group has adopted the International Financial Reporting Standards (IFRSs) for the first-time for the year ended December 31, 2022. The transition involves significant management judgment, impacting accounting policies, restatement of opening balances and presentation of consolidated financial statements.

As the first-time adoption of IFRS involves complexities, requiring management to make significant judgments in areas such as accounting policies and the presentation of consolidated financial statements, we have considered this as a key audit matter.

Our procedures included the following:

- Assessing the Management's selection and application of accounting policies under IFRS and ensuring the appropriateness of policy choices and compliance with IFRS requirements.
- Obtaining the gap analysis between Egyptian Accounting Standards (EAS) and IFRS and assessing the impact of adjusting entries resulting from the gap analysis.
- Assessing the accuracy of opening balances after the transition to IFRS and considering proper restatement of comparative information for consistency.
- Assessing the completeness of disclosures of consolidated financial statements as per IFRS requirements and considering the accuracy and adequacy of disclosures related to the first-time adoption of IFRS.

Independent Auditor's Report
To the Shareholders of Ezz Steel Company (S.A.E) (continued)
Report on the Audit of the Consolidated Financial Statements (continued)

Other Matter

The consolidated financial statements, on which our qualified opinion is issued, have been prepared for the purpose of the Group meeting its continuing obligations under the Listing Rules of the London Stock Exchange. These consolidated financial statements are therefore not the statutory consolidated financial statements of the Group as required by the laws in the jurisdiction where the Group is registered and regulated. The Group has prepared and published a separate set of consolidated financial statements for the year ended December 31, 2022, in accordance with Egyptian Accounting Standards, and relevant laws and regulations ("EAS consolidated financial statements"). These EAS consolidated financial statements have been audited by another auditor, who expressed an unmodified opinion on those statements on April 2, 2023. Our audit opinion doesn't extend to those statutory consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated 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 consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report**To the Shareholders of Ezz Steel Company (S.A.E) (continued)****Report on the Audit of the Consolidated Financial Statements (continued)*****Auditor's Responsibilities for the Audit of the Consolidated 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.


GRANT THORNTON

Dr. Osama El Bakry
Registration No. 935
Dubai, United Arab Emirates

February 29, 2024

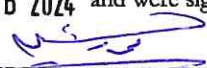



Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

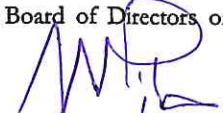
Consolidated statement of financial position
As at December 31, 2022

	Notes	December 31, 2022 EGP '000	December 31, 2021 EGP '000	January 1, 2021 EGP '000
ASSETS				
Non-current assets				
Property, plant and equipment	6	21,799,442	20,936,247	20,419,145
Right-of-use assets	7	24,167	42,292	60,417
Goodwill and other intangible assets	8	388,058	402,489	416,849
Investment in associates	9	-	105	105
Financial assets at fair value through other comprehensive income	10	2,520,522	7,562	4,616
Deferred tax assets	20	1,785,385	1,258,168	2,120,703
Trade and other receivables	13	57,507	47,632	45,380
Total non-current assets		26,575,081	22,694,495	23,067,215
Current assets				
Inventories	11	8,724,190	9,447,131	6,676,756
Trade and other receivables	13	13,256,296	11,043,779	7,326,561
Financial assets at amortised cost – treasury bills	14	566,332	132,261	249,732
Cash and bank balances	15	12,815,380	3,481,292	2,223,086
Total current assets		35,362,198	24,104,463	16,476,135
TOTAL ASSETS		61,937,279	46,798,958	39,543,350
EQUITY AND LIABILITIES				
Equity				
Share capital	16	2,716,325	2,716,325	2,716,325
Legal reserve	17(A)	1,358,163	1,358,163	1,358,163
Other reserves	17(B)	(1,176,073)	(1,176,073)	(1,176,073)
Accumulated losses		(8,627,268)	(11,963,092)	(15,579,664)
Treasury shares	16	(82,302)	(82,302)	(71,921)
Deficit of equity attributable to the Owners of the Company		(5,811,155)	(9,146,979)	(12,753,170)
Non-controlling interests		5,157,882	3,430,686	1,496,768
Deficit of equity		(653,273)	(5,716,293)	(11,256,402)
Non-current liabilities				
Borrowings	18	15,735,432	12,659,845	11,909,563
Employee benefit obligations	19	192,482	221,242	196,729
Deferred tax liabilities	20	3,145,527	3,024,122	2,996,147
Lease liabilities	7	34,939	63,962	91,052
Trade and other payables	22	3,121,114	3,215,353	3,520,895
Total non-current liabilities		22,229,494	19,184,524	18,714,386
Current liabilities				
Bank overdraft	21	638,717	270,398	155,949
Trade and other payables	22	19,600,990	9,367,805	8,727,571
Current portion of borrowings	18	17,034,756	22,179,747	22,854,924
Current income tax liabilities	23	2,444,108	929,489	34,304
Current portion of lease liabilities	7	30,115	25,786	22,080
Provisions	24	612,372	557,502	290,538
Total current liabilities		40,361,058	33,330,727	32,085,366
Total liabilities		62,590,552	52,515,251	50,799,752
TOTAL EQUITY AND LIABILITIES		61,937,279	46,798,958	39,543,350

These consolidated financial statements were approved and authorised for issue by the Board of Directors on **29 FEB 2024** and were signed on their behalf by:


Mr. Mamdouh El Rouby
Chairman of the Board


Mr. Hassan Nouh
Managing Director


Mr. Hazem Gouda
Chief Financial Officer

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Ezz Steel Company (S.A.E) and its subsidiaries
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Consolidated statement of profit or loss
For the year ended December 31, 2022

	Notes	2022 EGP '000	2021 EGP '000
Revenue	25	83,984,233	67,818,516
Cost of sales	26	(64,993,991)	(53,835,597)
GROSS PROFIT		18,990,242	13,982,919
Administrative and general expenses	27	(1,940,395)	(1,412,216)
Selling and marketing expenses	28	(963,028)	(948,077)
Other operating income	29	175,891	80,094
Other operating expenses	30	(901,304)	(1,177,238)
Operating profit		15,361,406	10,525,482
Finance income	31	414,174	136,838
Finance cost	32	(3,363,026)	(3,391,597)
Foreign currency (losses)/gains		(4,466,564)	105,425
PROFIT BEFORE INCOME TAX		7,945,990	7,376,148
Income tax expense	23	(2,100,781)	(1,820,342)
NET PROFIT FOR THE YEAR		5,845,209	5,555,806
<i>Profit attributable to:</i>			
Owners of the Company		3,721,472	3,620,327
Non-controlling interests		2,123,737	1,935,479
		5,845,209	5,555,806
Earnings per share (expressed in EGP per share):			
Basic and diluted earnings per share	33	6.98	6.79

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Consolidated statement of comprehensive income
For the year ended December 31, 2022

	Notes	2022 EGP '000	2021 EGP '000
Net profit for the year		5,845,209	5,555,806
Other comprehensive income/(loss)			
<i>Items that will not be reclassified to profit or loss:</i>			
Changes in fair value of financial assets at fair value through other comprehensive income	10	-	3,546
Actuarial gains/(losses) on remeasurements of employee benefit obligations	19	63,585	(4,227)
Other comprehensive income/(loss) for the year		63,585	(681)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,908,794	5,555,125
Total comprehensive income attributable to:			
Owners of the Company		3,762,138	3,619,665
Non-controlling interests		2,146,656	1,935,460
		5,908,794	5,555,125

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

**Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements**

**Consolidated statement of changes in equity
For the year ended December 31, 2022**

	Attributable to the Owners of the Company							
	Share capital EGP '000	Legal reserve EGP '000	Other reserves EGP '000	Accumulated losses EGP '000	Treasury shares EGP '000	Deficit of equity EGP '000	Non-controlling interest EGP '000	Total deficit of equity EGP '000
As at January 1, 2021 as per Egyptian GAAP	2,716,325	1,358,163	(1,176,073)	(15,527,223)	(71,921)	(12,700,729)	2,291,033	(10,409,696)
Effect of first-time adoption of IFRSs (Note 2.3)	-	-	-	(52,441)	-	(52,441)	(794,265)	(846,706)
As at January 1, 2021 as per IFRS	2,716,325	1,358,163	(1,176,073)	(15,579,664)	(71,921)	(12,753,170)	1,496,768	(11,256,402)
<i>Total comprehensive income for the year:</i>								
Net profit for the year	-	-	-	3,620,327	-	3,620,327	1,935,479	5,555,806
Other comprehensive loss for the year	-	-	-	(662)	-	(662)	(19)	(681)
Total comprehensive income for the year	-	-	-	3,619,665	-	3,619,665	1,935,460	5,555,125
<i>Transactions with shareholders:</i>								
Dividends distributed to non-controlling interests by subsidiaries	-	-	-	-	-	-	(808)	(808)
Shares issued to non-controlling interest	-	-	-	-	-	-	1,000	1,000
Acquisition of treasury shares (Note 16)	-	-	-	-	(10,381)	(10,381)	-	(10,381)
Acquisition of treasury shares in subsidiaries	-	-	-	(3,093)	-	(3,093)	(1,734)	(4,827)
Total transactions with shareholders	-	-	-	(3,093)	(10,381)	(13,474)	(1,542)	(15,016)
As at December 31, 2021	2,716,325	1,358,163	(1,176,073)	(11,963,092)	(82,302)	(9,146,979)	3,430,686	(5,716,293)
<i>Total comprehensive income for the year:</i>								
Net profit for the year	-	-	-	3,721,472	-	3,721,472	2,123,737	5,845,209
Other comprehensive income for the year	-	-	-	40,666	-	40,666	22,919	63,585
Total comprehensive income for the year	-	-	-	3,762,138	-	3,762,138	2,146,656	5,908,794
<i>Transactions with shareholders:</i>								
Dividends distributed to non-controlling interests by subsidiaries	-	-	-	-	-	-	(422,460)	(422,460)
Shares issued to non-controlling interest	-	-	-	-	-	-	3,000	3,000
Dividend distributed during the year (Note 16)	-	-	-	(426,314)	-	(426,314)	-	(426,314)
Total transactions with shareholders	-	-	-	(426,314)	-	(426,314)	(419,460)	(845,774)
As at December 31, 2022	2,716,325	1,358,163	(1,176,073)	(8,527,268)	(82,302)	(5,811,155)	5,157,882	(653,273)

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Consolidated statement of cash flows
For the year ended December 31, 2022

	Notes	2022 EGP '000	2021 EGP '000
OPERATING ACTIVITIES			
Profit for the year before income tax		7,945,990	7,376,148
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	6	1,225,542	1,212,590
Depreciation of right-of-use assets	7	18,125	18,125
Interest on lease liabilities	7	14,009	15,320
Amortization of intangible assets	8	15,275	14,930
Accrued interest on treasury bills	14	(34,175)	(28,095)
Provision for slow-moving and obsolete inventories	11	45,000	87,791
Provision of employees' benefit obligations	19	48,420	31,691
Provisions formed during the year	24	228,817	340,990
Loss/(gain) on disposal of property, plant and equipment	29-30	490	(900)
Impairment losses on non-financial assets	30	35,269	52,819
Finance income	31	(379,999)	(108,743)
Interest expense on borrowings and bank overdrafts	32	3,349,017	3,376,277
Foreign exchange difference		1,266,489	(7,112)
		13,778,269	12,381,831
<i>Working capital changes:</i>			
Inventories		677,941	(2,858,166)
Trade and other receivables		(2,257,556)	(3,772,290)
Trade and other payables		8,551,756	(161,145)
Provisions used		(173,947)	(74,026)
Employees' benefits obligations paid – net		(11,981)	(7,075)
Cash flow from operations		20,564,482	5,509,129
Interest paid		(3,192,857)	(3,705,210)
Income tax paid		(991,973)	(34,647)
Net cash inflow from operating activities		16,379,652	1,769,272
INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		(1,909,939)	(909,331)
Proceeds from sale of property, plant and equipment		147	982
Payment for acquisition of intangible assets	8	(844)	(570)
Payment to purchase unquoted equity securities - FVOCI	10	(1,262,980)	-
Interest received	31	379,999	108,743
Change in restricted bank balances		(965,149)	8,213
Payment for purchase of treasury bills		(489,403)	(129,371)
Proceeds from sale of treasury bills		89,507	274,937
Net cash used in investing activities		(4,158,662)	(646,397)
FINANCING ACTIVITIES			
Shares issued to non-controlling interest		3,000	1,000
Lease payments	7	(38,703)	(38,703)
Dividends paid		(848,774)	(808)
Repayments of/proceeds from borrowings - Net	18	(3,510,195)	81,335
Acquisition of treasury shares		-	(15,208)
Net cash (used in)/from financing activities		(4,394,672)	27,616
Net increase in cash and cash equivalents		7,826,318	1,150,491
Cash and cash equivalents at beginning of the year		3,078,835	1,927,464
Foreign exchange difference		174,302	880
Cash and cash equivalents at end of the year	15	11,079,455	3,078,835

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements
For the year ended December 31, 2022

1 General information

Ezz Steel Company (S.A.E) (the “Company”) was established as “Al Ezz Steel Rebars Company S.A.E” on April 2, 1994, under the Law No. 159 of 1981 and was registered in the Commercial Register under number 472, Menofia Governorate, Egypt. The Company changed its name to “Ezz Steel Company S.A.E” on November 1, 2009.

The Company was initially established for a period of 25 years from the date of its registration in the Commercial Register. However, the term of the Company has been extended for a further period of 25 years with effect of April 2, 2019.

The registered address of the Company is Plot No. 129/B, Fourth Industrial Zone, El Sadat City, Menofeya, Egypt.

The Company is engaged in manufacturing, trading and distribution of building materials, all types of iron, ceramic, sanitary ware, pipes, mixers and taps and carrying on contracting works related thereto.

The Company’s shares are listed on the Egyptian Stock Exchange and its global depositary receipts (each representing three ordinary shares) are also listed on the London Stock Exchange.

These consolidated financial statements as at December 31, 2022 comprise the Company and its subsidiaries (hereinafter referred to as the “Group”). The Group’s financial year starts on January 1, and ends on December 31, each year.

The Group has prepared a separate set of consolidated financial statements in accordance with Egyptian Accounting Standards, and applicable laws and regulations for the year ended December 31, 2022, which does not constitute part of these consolidated financial statements.

The details of Company’s principal subsidiaries, as at December 31, are set out below:

Subsidiaries	Effective ownership interest held by the Company		Effective ownership interest held by non-controlling interests	
	2022	2021	2022	2021
Al Ezz Dekheila Steel Company – Alexandria (A)	64.06%	64.06%	35.94%	35.94%
Al Ezz Rolling Mills Company (B)	64.06%	64.06%	35.94%	35.94%
Al Ezz Flat Steel (C)	64.06%	64.06%	35.94%	35.94%
Iron for Industrial, Trading and Constructing Steel (Contra Steel) (D)	57.66%	57.66%	42.34%	42.34%
Contra Wood for Wood Products (E)	55.16%	55.16%	44.84%	44.84%
Al Ezz for Medical Industries (F)	49.22%	49.22%	50.80%	50.80%

A. Al Ezz Dekheila Steel Company - Alexandria

Al Ezz Dekheila Steel Company - Alexandria (“EZDK”) is established on July 17, 1982 under Commercial Register number 104918.

The registered address of EZDK is Alexandria-Matrouh Highway, Al Dekheila, Alexandria, Egypt.

EZDK is engaged in producing, shaping, manufacturing and trading of all forms of iron and steel products and provision of services and consultations relating to the technological, technical, administrative and financial aspects of iron and steel.

The shares of EZDK were listed on the Egyptian Stock Exchange as at the reporting date. However, on August 5, 2023, the shareholders of EZDK resolved to authorise the voluntary delisting of EZDK’s shares from the Egyptian Stock Exchange (refer to Note 40 for details).

**Ezz Steel Company (S.A.E) and its subsidiaries
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**Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022**

1 General information (continued)

B. Al Ezz Rolling Mills Company

Al Ezz Rolling Mills Company (“ERM”) is established on March 10, 1986 under Commercial Register number 77038. ERM is a wholly owned subsidiary of EZDK.

The registered address of ERM is 8 Amr Street, Mohandeseen, Giza, Egypt.

ERM is engaged in producing of steel rebars, welded rebar mesh, iron billets, direct reduced iron and architectural material ancillary thereto.

C. Al Ezz Flat Steel

Al Ezz Flat Steel (“EFS”) is established on July 25, 1998 under Commercial Register number 33296. EFS is a wholly owned subsidiary of EZDK.

The registered address of EFS is Suez, Industrial Economic Zone, North-West of the Gulf of Suez, Ain Sokhna, Suez, Egypt.

EFS is engaged in producing hot and cold rolled and acid and oil treated steel rolls, flat steel sheets, cut and acid and oil treated flat steel sheets, sponge iron, burned lime and steel blocks and slabs and rebars.

D. Iron for Industrial, Trading and Constructing Steel (Contra Steel)

Iron for Industrial, Trading and Constructing Steel (Contra Steel) (“Contra Steel”) is established on May 31, 1995 under Commercial Register number 138227. The Group owns 57.66% interest in Contra Steel through its subsidiary EZDK (90% shares of Contra Steel are held by EZDK as at the reporting date).

The registered address of Contra Steel is Polt 6, Borg Al Arab, Alexandria, Egypt.

Contra Steel is engaged in production and trade of all metals, mineral products, constructions, maintenance, transportation, imports and exports.

E. Contra Wood for Wood Products

Contra Wood for Wood Products (“Contra Wood”) is established on August 30, 1992 under Commercial Register number 93416. The Group owns 55.16% interest in Contra Wood through its subsidiary Contra Steel (95.67% shares of Contra Wood are held by Contra Steel as at the reporting date).

The registered address of Contra Wood is Plot No. 63, Industrial Zone No. 4, 6th October, Giza, Egypt.

Contra Wood is engaged in production of pipes supplies, steel casting foundry, and mechanical equipment.

F. Al Ezz for Medical Industries

Al Ezz for Medical Industries (“Ezz Medical”) was established on August 11, 2020 under Commercial Register number 152115. As at reporting date, the Group holds 49.22% shareholding (30% directly and 19.22% through EZDK) in Ezz Medical. The management has assessed that the Group has controlling interest over Ezz Medical as the majority of its shares are currently held by the Group’s companies along with the ultimate beneficial owner of the Company.

The registered address of Ezz Medical is 35 Lebanon Street, Mohandeseen, Giza, Egypt.

Ezz Medical is established to manage a plant for producing medical supplies along with assembling medical supplies and equipment.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

1 General information (continued)

Financial information of the subsidiaries of the Group as at and for the years ended December 31, 2022 and December 31, 2021, before consolidation adjustments, is as follows:

A. Financial position

	2022		
	Assets	Liabilities	Equity/ (deficit of assets)
	EGP '000	EGP '000	EGP '000
Al Ezz Dekheila Steel Company – Alexandria	51,793,670	37,472,869	14,320,801
Al Ezz Rolling Mills Company	11,899,642	17,609,873	(5,710,231)
Al Ezz Flat Steel	19,690,136	14,591,849	5,098,287
Iron for Industrial, Trading and Constructing Steel (Contra Steel)	1,429,875	570,469	859,406
Contra Wood for Wood Products	31,748	2,362	29,386
Al Ezz for Medical Industries	26,271	18,252	8,019
	2021		
	Assets	Liabilities	Equity/ (deficit of assets)
	EGP '000	EGP '000	EGP '000
Al Ezz Dekheila Steel Company – Alexandria	40,153,758	29,939,948	10,213,810
Al Ezz Rolling Mills Company	10,826,798	15,844,074	(5,017,276)
Al Ezz Flat Steel	17,648,784	13,654,643	3,994,141
Iron for Industrial, Trading and Constructing Steel (Contra Steel)	942,606	315,299	627,307
Contra Wood for Wood Products	26,998	1,920	25,078
Al Ezz for Medical Industries	12,892	10,808	2,084

B. Financial Performance

	2022		2021	
	Revenue	Net profit/ (loss)	Revenue	Net profit/ (loss)
	EGP '000	EGP '000	EGP '000	EGP '000
Al Ezz Dekheila Steel Company – Alexandria	61,710,826	5,276,996	47,930,574	3,719,669
Al Ezz Rolling Mills Company	12,048,571	(753,677)	8,076,904	(1,217,810)
Al Ezz Flat Steel	19,350,333	1,104,145	17,060,327	2,602,611
Iron for Industrial, Trading and Constructing Steel (Contra Steel)	1,822,242	254,973	834,952	241,649
Contra Wood for Wood Products	37,822	5,778	24,608	4,249
Al Ezz for Medical Industries	-	(1,565)	-	(416)

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

1 General information (continued)

C. Cash flows

	2022		
	Operating activities EGP '000	Investing activities EGP '000	Financing activities EGP '000
Al Ezz Dekheila Steel Company – Alexandria	12,947,243	(1,518,678)	(5,738,893)
Al Ezz Rolling Mills Company	1,639,044	(8,723)	(909,356)
Al Ezz Flat Steel	2,518,025	(1,354,181)	(653,833)
Iron for Industrial, Trading and Constructing Steel (Contra Steel)	689,423	(350,850)	(23,933)
Contra Wood for Wood Products	343	(11,529)	(1,469)
Al Ezz for Medical Industries	(2,652)	5,602	-
	2021		
	Operating activities EGP '000	Investing activities EGP '000	Financing activities EGP '000
Al Ezz Dekheila Steel Company – Alexandria	1,758,451	(198,572)	(438,761)
Al Ezz Rolling Mills Company	138,124	(3,914)	(130,386)
Al Ezz Flat Steel	1,803,943	(1,496,500)	(409,803)
Iron for Industrial, Trading and Constructing Steel (Contra Steel)	(88,157)	116,875	(8,977)
Contra Wood for Wood Products	(1,615)	1,042	(1,066)
Al Ezz for Medical Industries	(321)	2,458	-

2 Basis for preparation

2.1 Statement of compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

2.2 Historical cost convention

These consolidated financial statements have been prepared under the historical cost basis, except for the following:

- Defined benefit obligations are recognised at the present value of future obligations using the projected credit unit method; and
- Financial instruments at fair value through other comprehensive income are measured at fair value.

2.3 First-time adoption of IFRS

These consolidated financial statements for the year ended December 31, 2022 are the first set of consolidated financial statements prepared in accordance with IFRS for the Group. For periods up to and including the year ended December 31, 2022, the Group prepared its consolidated financial statements in accordance with Egyptian Accounting Standards.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS applicable as at December 31, 2022, together with the comparative information for the year ended December 31, 2021, as described in the summary of significant accounting policies (refer to Note 4). In preparing the consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as at January 1, 2021, the Group's date of transition to IFRS.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

This note explains the principal adjustments made by the Group in restating its Egyptian Accounting Standards consolidated financial statements, including the consolidated statement of financial position as at January 1, 2021 and the consolidated financial statements as of, and for, the year ended December 31, 2021.

The afore-said transition to IFRS has resulted in the following changes:

Extract from the consolidated statement of financial position as at January 1, 2021	Egyptian Accounting Standards EGP '000	<i>Adjustments/ Reclassification (C)</i> EGP '000	IFRS conversion adjustments EGP '000	IFRS figures as at January 1, 2021 EGP '000
ASSETS				
Fixed assets (Net)	23,291,803	(23,291,803)	-	-
Projects under construction	212,660	(212,660)	-	-
Long term investments	4,721	(4,721)	-	-
Long term lending to others	45,380	(45,380)	-	-
Other assets	35,858	(35,858)	-	-
Goodwill	315,214	(315,214)	-	-
Trade and notes receivables	2,875,782	(2,875,782)	-	-
Debtors and other debit balances	4,404,704	(4,404,704)	-	-
Suppliers – advance payments	331,373	(331,373)	-	-
Property, plant and equipment (A and B)	-	23,310,602	(2,891,457)	20,419,145
Right-of-use assets	-	60,417	-	60,417
Goodwill and other intangible assets	-	416,849	-	416,849
Investment in associates	-	105	-	105
Financial assets at fair value through other comprehensive income	-	4,616	-	4,616
Deferred tax assets	2,120,703	-	-	2,120,703
Inventories	6,676,756	-	-	6,676,756
Trade and other receivables	-	7,371,941	-	7,371,941
Financial assets at amortised cost – treasury bills	249,732	-	-	249,732
Cash and bank balances	2,223,086	-	-	2,223,086
TOTAL ASSETS	42,787,772	(352,965)	(2,891,457)	39,543,350
EQUITY AND LIABILITIES				
Equity				
Share capital	2,716,325	-	-	2,716,325
Reserves	182,090	(182,090)	-	-
Legal reserve	-	1,358,163	-	1,358,163
Other reserves	-	(1,176,073)	-	(1,176,073)
Surplus of property, plant and equipment (B)	1,446,615	-	(1,446,615)	-
Accumulated losses	(15,527,223)	(52,441)	-	(15,579,664)
Treasury shares	(71,921)	-	-	(71,921)
Non-controlling interests (A, B, D and E)	2,291,033	-	(794,265)	1,496,768
Total equity	(8,963,081)	(52,441)	(2,240,880)	(11,256,402)

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

Extract from the consolidated statement of financial position as at January 1, 2021 (continued)	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification (C) EGP '000	IFRS conversion adjustments EGP '000	IFRS figures as at January 1, 2021 EGP '000
Liabilities				
Long-term loans	11,634,621	(11,634,621)	-	-
Credit facilities and loan installments due within one year	22,812,438	(22,812,438)	-	-
Long-term liabilities	3,717,624	(3,717,624)	-	-
Trade and notes payables	5,181,826	(5,181,826)	-	-
Customers- advance payments	1,008,553	(1,008,553)	-	-
Creditors and other credit balances	2,738,194	(2,738,194)	-	-
Liability of the supplementary pension scheme	20,771	(20,771)	-	-
Borrowings	-	34,764,487	-	34,764,487
Employee benefit obligations	-	196,729	-	196,729
Deferred tax liabilities (E)	3,661,950	(15,226)	(650,577)	2,996,147
Lease liabilities	430,560	(317,428)	-	113,132
Bank overdraft	155,949	-	-	155,949
Trade and other payables	-	12,248,466	-	12,248,466
Current income tax liabilities	34,304	-	-	34,304
Provisions	354,063	(63,525)	-	290,538
Total liabilities	51,750,853	(300,524)	(650,577)	50,799,752
TOTAL EQUITY AND LIABILITIES	42,787,772	(352,965)	(2,891,457)	39,543,350

Extract from the consolidated statement of financial position as at December 31, 2021	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification (C) EGP '000	IFRS conversion adjustments EGP '000	IFRS figures as at December 31, 2021 EGP '000
ASSETS				
Fixed assets (Net)	22,202,508	(22,202,508)	-	-
Projects under construction	1,585,312	(1,585,312)	-	-
Long term investments	4,121	(4,121)	-	-
Long term lending to others	47,632	(47,632)	-	-
Other assets	30,735	(30,735)	-	-
Goodwill	315,214	(315,214)	-	-
Trade and notes receivables	4,795,988	(4,795,988)	-	-
Debtors and other debit balances	5,849,788	(5,849,788)	-	-
Suppliers – advance payments	802,659	(802,659)	-	-
Property, plant and equipment (A and B)	-	23,606,822	(2,670,575)	20,936,247
Right-of-use assets	-	42,292	-	42,292
Goodwill and other intangible assets	-	402,489	-	402,489
Investment in associates	-	105	-	105
Financial assets at fair value through other comprehensive income	-	7,562	-	7,562
Deferred tax assets	1,258,168	-	-	1,258,168
Inventories	9,518,954	(71,823)	-	9,447,131
Trade and other receivables	-	11,091,411	-	11,091,411
Financial assets at amortised cost – treasury bills	132,261	-	-	132,261
Cash and bank balances	3,481,292	-	-	3,481,292
TOTAL ASSETS	50,024,632	(555,099)	(2,670,575)	46,798,958

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

Extract from the consolidated statement of financial position as at December 31, 2021 (continued)	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification (C) EGP '000	IFRS figures	
			IFRS conversion adjustments EGP '000	as at December 31, 2021 EGP '000
EQUITY AND LIABILITIES				
Equity				
Share capital	2,716,325	-	-	2,716,325
Reserves	182,090	(182,090)	-	-
Legal reserve	-	1,358,163	-	1,358,163
Other reserves	-	(1,176,073)	-	(1,176,073)
Surplus of property, plant and equipment (B)	1,335,620	-	(1,335,620)	-
Accumulated losses	(11,901,458)	(61,634)	-	(11,963,092)
Treasury shares	(82,302)	-	-	(82,302)
Non-controlling interest (A, B, D and E)	4,163,261	1,501	(734,076)	3,430,686
Total equity	(3,586,464)	(60,133)	(2,069,696)	(5,716,293)
Liabilities				
Long-term loans	12,432,596	(12,432,596)	-	-
Credit facilities and loan installments due within one year	22,132,212	(22,132,212)	-	-
Long-term liabilities	3,436,595	(3,436,595)	-	-
Trade and notes payables	5,301,611	(5,301,611)	-	-
Customers- advance payments	1,708,783	(1,708,783)	-	-
Creditors and other credit balances	2,686,513	(2,686,513)	-	-
Liability of the supplementary pension scheme	25,101	(25,101)	-	-
Borrowings	-	34,839,592	-	34,839,592
Employee benefit obligations	-	221,242	-	221,242
Deferred tax liabilities (E)	3,643,489	(18,488)	(600,879)	3,024,122
Lease liabilities	364,532	(274,784)	-	89,748
Bank overdraft	270,398	-	-	270,398
Trade and other payables	-	12,583,158	-	12,583,158
Current income tax liabilities	929,489	-	-	929,489
Provisions	679,777	(122,275)	-	557,502
Total liabilities	53,611,096	(494,966)	(600,879)	52,515,251
TOTAL EQUITY AND LIABILITIES	50,024,632	(555,099)	(2,670,575)	46,798,958

Extract from the consolidated statement of cash flows for the year ended December 31, 2021	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification (C) EGP '000	IFRS figures	
			IFRS conversion adjustments EGP '000	as for the year ended December 31, 2021 EGP '000
Cash flows from operating activities (B and D)	4,078,452	(2,086,823)	(222,357)	1,769,272
Cash flows used in investing activities	(1,600,029)	945,419	-	(654,610)
Cash flows (used in)/ from financing activities (D)	(1,327,052)	1,361,406	1,475	35,829

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Notes to the consolidated financial statements (continued)
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2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

Extract from the consolidated statement of profit or loss for the year ended December 31, 2021	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification EGP '000	IFRS figures as for the year ended December 31, 2021	
			IFRS conversion adjustments EGP '000	EGP '000
Revenue	67,818,516	-	-	67,818,516
Cost of sales (B)	(54,048,213)	-	212,740	(53,835,473)
Administrative and general expenses	(1,404,507)	(14,500)	6,668	(1,412,339)
Selling and marketing expenses	(948,077)	-	-	(948,077)
Other operating income	80,094	-	-	80,094
Other operating expenses	(1,177,239)	-	-	(1,177,239)
Finance income	136,838	-	-	136,838
Finance cost	(3,391,597)	-	-	(3,391,597)
Foreign currency (losses)/gains	105,425	-	-	105,425
Income tax expense (D)	(1,773,905)	3,262	(49,699)	(1,820,342)
NET PROFIT FOR THE YEAR	5,397,335	(11,238)	169,709	5,555,806
<i>Profit attributable to:</i>				
Owners of the Company	3,521,418	(7,014)	105,923	3,620,327
Non-controlling interests	1,875,917	(4,224)	63,786	1,935,479
	5,397,335	(11,238)	169,709	5,555,806
Basic and diluted earnings per share (expressed in EGP per share):	6.61	(0.01)	0.19	6.79

Extract from the consolidated statement of comprehensive income for the year ended December 31, 2021	Egyptian Accounting Standards EGP '000	Adjustments/ Reclassification EGP '000	IFRS figures as for the year ended December 31, 2021	
			IFRS conversion adjustments EGP '000	EGP '000
Net profit for the year	5,397,335	(11,238)	169,709	5,555,806
<i>Other comprehensive income</i>				
Changes in fair value of financial assets at fair value through other comprehensive income*	-	3,546	-	3,546
Realised portion of modification surplus of fixed assets (transferred to retained losses during the year) (B)	(171,184)	-	171,184	-
Remeasurements of employee benefit Obligations	(4,227)	-	-	(4,227)
Other comprehensive income	(175,411)	3,546	171,184	(681)
TOTAL COMPREHENSIVE INCOME	5,221,924	(7,692)	340,893	5,555,125

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Notes to the consolidated financial statements (continued)
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2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

The reclassifications/remeasurements made to the consolidated statement of financial position and the consolidated statement of comprehensive income as part of IFRSs conversion are as follows:

A. Capitalisation of foreign currency changes in property, plant and equipment

In accordance with Annexure B of the Egyptian Accounting Standard 13, the Group has opted for capitalization of foreign currencies differences arising on remeasurement of foreign currency denominated liabilities in relation to property, plant and equipment as part of acquisition costs. However, these differences are required to be charged to the consolidated statement of profit or loss under IFRS and have been accounted for accordingly while preparing these consolidated financial statements. Further, the depreciation impact of these capitalized foreign currency changes has also been eliminated from the consolidated statement of profit or loss.

B. Modification surplus on property, plant and equipment

While preparing the consolidated financial statements under Egyptian Accounting Standards, the Group had adopted modified cost model for accounting for some classes of its property, plant and equipment and had made adjustments to cost and accumulated depreciation using modification factors stated in Annexure A of the Egyptian Accounting Standard 13. However, these adjustments are not permitted under IFRSs and have been eliminated in preparation of these consolidated financial statements. Further, the depreciation impact of this modification surplus has also been eliminated accordingly from the consolidated statement of profit or loss.

C. Adjustments/reclassifications of figures in the consolidated statements of financial position

The following items have been adjusted/reclassified to comply with the requirements of IFRSs and improve the quality of information presented:

- i. Certain items of property, plant and equipment, right-of-use assets and intangible assets, earlier disclosed as fixed assets (Net), projects under construction, other assets and goodwill have been reclassified to appropriate line items in the consolidated statement of financial position.
- ii. Certain items of investment in associates and financial assets at fair value through other comprehensive income, earlier disclosed as long-term investments, have been reclassified to appropriate line items in the consolidated statement of financial position.
- iii. Certain items of trade and other receivables, earlier disclosed as trade and notes receivables, debtors and other debit balances, suppliers – advance payments and long-term lending to others, have been reclassified to appropriate line items in the consolidated statement of financial position.
- iv. Reserves have been disaggregated into legal reserves and other reserves in the consolidated statement of financial position.
- v. Certain liabilities, earlier included in lease liabilities, have been reclassified to borrowings in the consolidated statement of financial position as these did not qualify to be accounted for as lease liabilities.
- vi. Certain items of trade and other payables and employees' benefit obligations, earlier disclosed as trade and notes payables, creditors and other credit balances, customers – advance payments and other long-term liabilities, have been reclassified to appropriate line items in the consolidated statement of financial position.
- vii. Certain items of borrowings, earlier disclosed as long-term loans and credit facilities and loan installments due within one year, have been reclassified to appropriate line items in the consolidated statement of financial position.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

2 Basis for preparation (continued)

2.3 First-time adoption of IFRS (continued)

C. Adjustments/reclassifications of figures in the consolidated statements of financial position (continued)

viii. Difference between the cost and amount received pursuant to winding up of Atlantic Pacific Transport Ltd., an investment classified at fair value through other comprehensive income, has been recognised to adjust the fair value of that investment, based on best estimates available as at the date of these consolidated financial statements.

D. Dividends to employees and the Board of Directors

As stipulated by the Egyptian laws, when a publicly joint stock company declares any dividends, the company is mandated to distribute profits to its employees and Board of Directors. Those distributions are treated as an adjustment to retained earnings, similar to the treatment of dividends. However, these compensations are treated as a direct charge to the profit or loss under IFRS and have been accounted for under General and administrative expenses in the consolidated statement of profit or loss.

E. Deferred tax liabilities and tax expense

This represents the cumulative effect of the afore-said remeasurement/reclassification transactions on deferred tax liabilities as at the year end and deferred tax expense for the year.

2.4 Going concern basis of accounting

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to recover its financial assets within the credit terms and discharge its liabilities as and when these falls due.

As at December 31, 2022, the Group has accumulated losses of EGP 8,627.2 million (2021: EGP 11,963.1 million), deficit of equity of EGP 653.2 million (2021: EGP 5,716.3 million) and net current liabilities of EGP 4,998.9 million (2021: EGP 9,226.3 million). However, the Group has recognized net profit of EGP 5,845.2 million for the year ended December 31, 2022 (2021: EGP 5,555.8 million) and has also generated cash flows of EGP 16,379.6 million from operating activities during the year (2021: EGP 1,769.2 million). The management believes that this positive trend profitability and source of finance will continue in the foreseeable future based on the five years' budgets and forecasts. Based on this, the management has a reasonable expectation that the Group has and will have adequate resources to continue in operational existence for the foreseeable future.

3 New or revised standards and interpretations

3.1 Standards, Interpretations and amendments adopted as at January 1, 2022

Accounting pronouncements which have become effective from January 1, 2022 and have therefore been adopted are as follows:

- Reference to the Conceptual Framework (Amendments to IFRS 3);
- COVID-19 – Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16);
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37); and
- Annual Improvements to International Financial reporting Standards 2018-2020 Cycle (amendments to IAS 41, IFRS 1, IFRS 9 and IFRS 16)

These amendments do not have a significant impact on these consolidated financial statements and therefore disclosures have not been made.

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**Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022**

3 New or revised standards and interpretations (continued)

3.2 Standards, amendments and interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Other standards and amendments that are not yet effective and have not been adopted early by the Group are as follows:

Effective for annual reporting periods beginning on or after January 1, 2023:

- IFRS 17 'Insurance Contracts';
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2); and
- Definition of Accounting Estimate (Amendments to IAS 8).

Effective for annual reporting periods beginning on or after January 1, 2024:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16); and
- Non-current Liabilities with Covenants (Amendments to IAS 1).

These amendments are not expected to have a significant impact on the consolidated financial statements in the period of initial application and therefore the disclosures have not been made.

4 Summary of significant accounting policies

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and on the following pages.

Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

The consolidated financial statements include the assets, liabilities, income and expenses of subsidiaries controlled by the Group from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

Business combinations

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

The acquisition method of accounting is used to account for all business combinations by the Group, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date and is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured with changes in fair value being recognised in consolidated statement of comprehensive income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Ezz Steel Company (S.A.E) and its subsidiaries
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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. 'Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and portion of the cash-generating unit retained.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Foreign currency translation

Functional and presentation currency

Functional currency of all the entities within the Group is Egyptian Pound ("EGP") which is also the Group's presentation currency. All values are rounded to the nearest thousands ('000) Egyptian Pound, except where noted otherwise.

Transactions and balances

Transactions in foreign currencies are translated to the presentation currency of the respective Group entity at exchange rates prevailing at the dates of the transactions (spot exchange rate).

Monetary assets and liabilities denominated in foreign currencies are translated to the presentation currency at the exchange rate applicable at the reporting date and the resulting foreign exchange gains and losses are recognised in the consolidated statement of profit or loss, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to the consolidated statement of profit or loss. Tax charges and credits, if any, attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the presentation currency at the exchange rate when the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are not retranslated at the reporting date.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial year in which they are incurred.

Ezz Steel Company (S.A.E) and its subsidiaries
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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight-line method except for rolling rings and mills which is depreciated using the units of production method. The useful lives can be summarised, as follows:

Classification

Buildings	8 – 50 years
Machinery and equipment	
- Rolling rings and mills	According to actual use
- Other machinery and equipment	5 – 25 years
Vehicles	2 – 5 years
Furniture and office equipment	3 – 10 years
Tools and appliances	4 – 5 years
Leasehold improvements	8 – 40 years

Residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income/(expenses)" in the consolidated statement of profit or loss.

Projects under construction

Projects under construction are stated at cost less realised impairment losses, if any. Cost includes all expenditures associated with the acquisition of the asset and make it usable. When the assets are ready for its intended use, it is transferred from projects under construction to the appropriate category under property, plant and equipment and depreciated in accordance with Group's policies.

Leases

The Group has entered into various lease contracts having tenure of 8 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate.

I. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows:

Buildings	8 years
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Right-of-use assets is also subject to impairment.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Leases (continued)

II. Lease liabilities

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under lease liabilities in the consolidated statement of financial position.

The finance cost is charged to consolidated statement of profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

III. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term in profit or loss.

Goodwill and other intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, which can be controlled and are capable of generating future economic benefits.

Intangible assets are stated at purchase cost including any expenses that are directly attributable to preparing the asset for its intended use, net of accumulated amortisation and impairment losses, if any. Amortisation is recognised in consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this mostly reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Production license and computer software

Production license comprises amount paid by Al Ezz Flat Steel to Industrial Development Authority in Egypt to obtain approval for steel rebar production permit.

Computer software represents amount incurred in connection with the acquisition of ERP and other software being used by the Group.

These intangible assets are measured at historical cost less the accumulated amortisation and accumulated impairment losses, if any. Historical cost includes all expenditures associated with the acquisition of an intangible asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognised in the consolidated statement of profit or loss as it is incurred.

Amortisation is calculated to write-off the costs of these assets less their residual values, using straight-line method over their estimated useful lives, and is generally recognised in the consolidated statement of profit or loss. The useful lives in the calculation of amortisation are as follows:

Computer software	8 years
Production license	8 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Ezz Steel Company (S.A.E) and its subsidiaries
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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Goodwill and other intangible assets (continued)

Goodwill

Goodwill represents the excess of acquisition cost over the Group's share in the fair value of the investee's acquired net assets at the time of acquisition.

Goodwill is assessed for impairment at each reporting date, and impairment losses, if any, are recognised in the consolidated statement of profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

On disposal of a subsidiary or where the Group ceases to exercise control, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but neither control nor joint control over those policies.

Investment in associate is accounted for using the equity method.

Under the equity method of accounting, interests in associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses and movements in other comprehensive income. Goodwill relating to associates is included in the carrying amount of the investment and is not specifically tested for impairment.

Where the Group's share of losses exceeds its interest in an associate, the carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in these associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associates. At each reporting date, the Group determines whether there is objective evidence that the investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit / (loss) of an associate' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Impairment of non-financial assets

Non-financial assets other than goodwill

Non-financial assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

**Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022**

4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Goodwill

Goodwill is not subject to amortisation and are tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (“CGUs”). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination.

The recoverable amount of an asset or CGU is the greater of its value in use, and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in consolidated statement of profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. For other assets, 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 amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenditures, the latter being allocated on the basis of normal operating capacity but excludes borrowing costs. Costs of purchased inventory are determined after deducting rebates and discounts. Costs are assigned to individual items of inventories using weighted average method. Work in process and finished goods are measured at actual manufacturing cost as the actual level of production of the Group approximates the normal capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and estimated costs necessary to make the sale.

The provision for slow moving and obsolete inventories is created in accordance with the management’s assessment.

Financial instruments

Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss, as applicable); and
- those to be measured at amortised cost.

The Group’s financial assets at fair value through other comprehensive income comprises equity investment in unlisted companies. The Group’s financial assets at amortised cost include trade and most other receivables, treasury bills and cash and bank balances.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification (continued)

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI), as applicable. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition.

Trade receivables are initially recognised at transaction price (unless there is significant financing component) and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. According to the Group business model, the Group subsequently measures debt instruments at amortised cost for assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income using the effective interest rate method.

Any gain or loss arising on derecognition is recognised directly in the consolidated statement of profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses.

Impairment

The Group assesses on a forward-looking basis, the expected credit loss associated with its trade receivables and debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial liabilities

Classification

Financial liabilities are classified, at initial recognition, as borrowings or payables.

The Group's financial liabilities include lease liabilities, borrowings, bank overdrafts and trade and most other payables.

Ezz Steel Company (S.A.E) and its subsidiaries
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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities (continued)

Recognition, measurement and derecognition

Financial liabilities are recognised initially at fair value, net of transaction costs incurred. These are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of these liabilities using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in consolidated statement of profit or loss as other income or finance costs.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Reserves

Legal reserve

The Group transfers 5% of its net profit for the year to legal reserve in accordance with applicable Laws and Regulations. This transfer is shown as a reclassification adjustment in the consolidated statement of changes in equity for the year in which it occurs.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Reserves (continued)

Legal reserve (continued)

The shareholders may resolve to discontinue such transfer once the legal reserve has reached 50% of the paid-up share capital of the Company. The legal reserve may be used for the benefit of the Company at the discretion of the Directors, subject to approval by shareholders.

Other reserves

The Directors of any entity within the Group may resolve to create reserve by setting aside share of yearly profits for future expenditure commitments and obligations or any other purpose as they deem appropriate.

Treasury shares

When any entity within the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled or reissued. Repurchased shares are classified as treasury shares and are presented in equity. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included within equity.

Dividends

Obligation is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Post-employment obligation

Defined benefit plan

Some of the entities within the Group are maintaining a supplementary pension scheme for their employees. The liability recognised in the consolidated statement of financial position in respect of this defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Employee benefits (continued)

Post-employment obligation (continued)

Defined contribution plan (continued)

For defined contribution plan, the Group has established a provident fund and also pays fixed contributions to the Social Insurance Authority in Egypt on a mandatory basis.

The Group has no further payment obligations once the contributions have been paid under the afore-said plans. The contributions are recognised as employee benefit expense when they are due.

Sharing of profits

The Group may distribute share of its profit to its employees in accordance with applicable Laws and Regulations. These are recognised in the consolidated statement of profit or loss for the period in which the employees' rights to receive the share of profit are established, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation can be made.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer and in accordance with labour law. Falling due more than 12 months after the end of the reporting period are discounted to present value.

Taxation

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of taxable temporary differences associated with investments in subsidiaries and associates when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Ezz Steel Company (S.A.E) and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Taxation (continued)

Deferred income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Value Added Tax ("VAT")

The Group is subject to VAT on its transactions inside Egypt and in other jurisdictions in which it operates at various rates. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of services (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). The Group reports revenue net of value added tax for all the periods presented in the consolidated financial statements.

Salary Tax

In accordance with the Egyptian Tax Law, the Group withholds the Salary Tax due on each employee and remits the tax to the Tax Authority. Salary Tax withheld by the Group are recorded as liability in the consolidated statement of financial position.

Stamp Tax

Stamp tax law in Egypt is imposed on a variety of documents, such as contracts and on the values of certain transactions e.g. advertisements. Stamp tax is expensed in profit or loss as incurred.

Property Tax

Property tax is imposed on all buildings in Egypt. The tax rate is applied on the annual rental value of the taxable buildings after certain deduction allowed for maintenance. Property Tax expense is recognized on an accrual basis.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Provisions (continued)

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

The Group makes use of the exemption in IAS 37 not to disclose some or all of the information required by the accounting standard with regards to provisions when it can be expected that such disclosure would prejudice seriously the position of the Group in a dispute with other parties on the subject matter of the provision.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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 capitalisation. Other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

Revenue recognition

The Group recognises revenue from contracts with customers when control of the goods or services is transferred to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group recognises revenue from contracts with customers based on the five steps model set out as follows:

Step 1: identify the contract(s) with a customer:

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: identify the performance obligations in the contract:

A performance obligation is a promise in a contract with a customer to transfer a good or services to the customer.

Step 3: Determine the transaction price:

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4: Allocate the transaction price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation:

An entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

To determine the point in time at which a customer obtains control of a promised asset and the Group satisfies a performance obligation, the Group considers the requirements for control. In addition, the Group considers indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset. The customer has legal title to the asset.
- The Group has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Sales of goods

Sales are recognised as revenue at point in time when control of the products has transferred, being when the products are delivered to the customers, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Delivery occurs when the products have been shipped to the specific location, risks of damage and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts with banks, time deposits, and money market funds that have an initial maturity period of less than three months and are subject to an insignificant risk of changes in value, net of bank overdrafts, if any, that are repayable on demand and form an integral part of the Group's cash management.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer and Board of Directors. The Board of the Company has appointed a Chief Operating Decision-Maker who assesses the financial performance and position of the Group and makes strategic decisions. This Chief Operating Decision-Maker has been identified as the Chief Executive Officer.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Parent, excluding any costs of servicing equity other than ordinary shares, by the weight average number of ordinary shares in issue during the year (excluding ordinary shares purchased by the Group and held as treasury shares).

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

4 Summary of significant accounting policies (continued)

Earnings per share (continued)

Diluted earnings per share (continued)

The Group does not have any categories of dilutive potential ordinary shares, hence the diluted earnings per share is the same as the basic earnings per share.

Current versus non-current classification

The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

5 Accounting estimates, assumptions and judgments

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

5.1 Critical accounting estimates and assumptions

Estimates and adjustments are continually being 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Recognition of deferred tax assets

At each reporting date, the Group's management reviews the recoverable amount of deferred tax assets recognised by its subsidiaries with significant carried forward tax losses. Deferred tax assets on these tax losses are recognised to the extent that it is probable that these losses will be available for adjustment against future profits of these subsidiaries. As at December 31, 2022, the Group has recognised deferred tax assets on these carried forward tax losses amounting to EGP 1,054 million. The management of the Group has prepared a budget for the years upto 2028 and has assessed that these subsidiaries will have sufficient profits for adjusting carried forward losses in the forthcoming years (Note 20).

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Notes to the consolidated financial statements (continued)
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5 Accounting estimates, assumptions and judgments (continued)

5.2 Other accounting estimates

Impairment of goodwill

The Group tests whether goodwill has suffered any impairment at each reporting date. The recoverable amount of a cash generating unit (CGU) is determined using certain assumptions (Note 8.1). The changes in those assumptions may cause actual results to vary and cause adjustments to the goodwill within the next financial year.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At each reporting date, management assesses that the useful lives represent the expected utility of the assets to the Group. The carrying amounts are analysed in Note 6. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year.

Employee benefit retirement obligations

The present value of employees' defined benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost of employees' benefits include the discount rate of future cash outflows and any changes in these assumptions will impact the carrying amount of employees' benefits.

The Group determines the appropriate discount rate of cash flows at the end of each financial year. The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefits obligations. The Group considers the discount rate at the end of the financial year on market returns on the government bonds denominated in the currency and the year estimated for the defined benefits obligations (Note 19).

5.3 Judgements

Assessment/reassessment of control

The management makes judgements, as to whether or not the Group controls an investee, at the time of acquisition of the investee and subsequently if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in IFRS 10. Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification of any of the Group's subsidiaries held as at January 1, 2022.

Determining the lease term

Extension and termination options are included in a number of leases agreements across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of termination options held are exercisable only by the Group and not by the respective lessor.

Judgement is exercised by the management to assess whether the exercise of an option is reasonably certain and whether it may be considered in determining the lease term. Management considers all facts and circumstances that create an economic incentive to exercise a termination option. Years after termination options are only included in the lease term if the lease is reasonably certain not to be terminated.

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6 Property, plant and equipment

2022	Land EGP '000	Buildings EGP '000	Machinery and equipment EGP '000	Vehicles EGP '000	Furniture and office equipment EGP '000	Tools and appliances EGP '000	Leasehold improvements EGP '000	Projects under construction EGP '000	Total EGP '000
<i>Cost</i>									
As at January 1, 2022	782,142	9,876,983	27,078,637	220,988	296,628	261,886	3,903	1,585,311	40,106,478
Additions during the year	-	-	-	-	-	-	-	2,089,375	2,089,375
Transfers	2,603	12,371	317,877	-	35,721	34,079	-	(402,651)	-
Disposals during the year	-	-	(136,562)	(954)	(798)	(13)	-	-	(138,327)
As at December 31, 2022	784,745	9,889,354	27,259,952	220,034	331,551	295,952	3,903	3,272,035	42,057,526
<i>Accumulated depreciation:</i>									
As at January 1, 2022	-	3,311,816	15,260,742	211,830	212,124	169,817	3,903	-	19,170,232
Charge for the year	-	224,417	940,575	5,349	23,814	31,387	-	-	1,225,542
Disposals during the year	-	-	(135,925)	(954)	(798)	(13)	-	-	(137,690)
As at December 31, 2022	-	3,536,233	16,065,392	216,225	235,140	201,191	3,903	-	20,258,084
Net book value as at December 31, 2022	784,745	6,353,121	11,194,560	3,809	96,411	94,761	-	3,272,035	21,799,442

Land includes a parcel of land purchased from Gulf of Suez Development Company with a consideration of EGP 28 million. The land was purchased in 2010 for the purpose of establishing an industrial project and has a total area of 928,000 square metres. Currently, the procedures to register the land in the name of the Group are in process. The Group also includes other parcels of land acquired from different parties from time to time that are pending registration in the name of the Group.

The Group has signed a sale and leaseback arrangement with HD Company in relation to a parcel of land with a cost amounting to EGP 70 million. As per the terms and conditions of the arrangement, the Group has a right to own the afore-said land at a predetermined amount at the end of a 7 years' term ending December 25, 2025. This sale and leaseback transaction has been assessed as a financing arrangement by the Group and has been accounted for accordingly.

In 2022, the Group has capitalised certain projects completed during the year amounting to EGP 403 million (2021: EGP 357 million) which were transferred from projects under construction to relevant classes of property, plant and equipment.

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

6 Property, plant and equipment (continued)

2021	Land EGP '000	Buildings EGP '000	Machinery and equipment EGP '000	Vehicles EGP '000	Furniture and office equipment EGP '000	Tools and appliances EGP '000	Leasehold improvements EGP '000	Projects under construction EGP '000	Total EGP '000
As at January 1, 2021	779,275	9,848,756	26,953,313	224,708	281,230	231,775	3,903	212,660	38,535,620
Additions during the year	-	-	-	-	-	-	-	1,729,772	1,729,772
Transfers	2,867	29,401	273,654	635	17,406	33,157	-	(357,120)	-
Disposals during the year	-	(1,174)	(148,330)	(4,355)	(2,008)	(3,046)	-	-	(158,913)
As at December 31, 2021	782,142	9,876,983	27,078,637	220,988	296,628	261,886	3,903	1,585,312	40,106,479
<i>Accumulated depreciation:</i>									
As at January 1, 2021	-	3,086,589	14,478,042	209,615	187,935	150,389	3,903	-	18,116,473
Charge for the year	-	226,401	930,957	6,570	26,188	22,474	-	-	1,212,590
Disposals during the year	-	(1,174)	(148,257)	(4,355)	(1,999)	(3,046)	-	-	(158,831)
As at December 31, 2021	-	3,311,816	15,260,742	211,830	212,124	169,817	3,903	-	19,170,232
Net book value as at December 31, 2021	782,142	6,565,167	11,817,895	9,158	84,504	92,069	-	1,585,312	20,936,247

Depreciation included in the consolidated statement of profit or loss are allocated as follows:

	2022 EGP '000	2021 EGP '000
Cost of sales (Note 26)	1,206,503	1,192,644
Administrative and general expenses (Note 27)	18,440	19,260
Selling and marketing expenses (Note 28)	599	686
	<u>1,225,542</u>	<u>1,212,590</u>

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

6 Property, plant and equipment (continued)

Property, plant and equipment include fully depreciated assets amounting to EGP 3,854 million still in use as at December 31, 2022 (2021: EGP 3,297 million).

Projects under construction amounted to EGP 3,272 million as at December 31, 2022 (2021: EGP 1,585 million) mainly represent construction of electric arc furnace with a production capacity of 1.6 million tons per year of molten steel in Al Ezz Flat Steel. The nature of these projects is as follows:

	2022	2021
	EGP '000	EGP '000
Buildings	15,729	4,820
Machinery and equipment	3,232,999	1,565,720
Advance to suppliers	21,945	14,772
Other projects under construction	1,362	-
	<u>3,272,035</u>	<u>1,585,312</u>

Machinery and equipment include capitalized borrowing costs of EGP 107.4 million at average capitalisation rate of 8% per annum (2021: EGP Nil).

7 Leases

The Group has entered in to lease agreements for some of its building located in Cairo, Egypt. The leases are reflected in the consolidated statement of financial position as right-of-use assets and lease liabilities.

I. Right-of-use assets

The carrying amounts of the right-of-use assets and the movements during the year are shown below:

	Buildings	
	2022	2021
	EGP '000	EGP '000
Gross carrying amount		
As at January 1,	145,000	145,000
As at December 31,	<u>145,000</u>	<u>145,000</u>
Accumulated depreciation		
As at January 1,	102,708	84,583
Charge for the year (Note 27)	18,125	18,125
As at December 31,	<u>120,833</u>	<u>102,708</u>
Net carrying amount as at December 31,	<u>24,167</u>	<u>42,292</u>

II. Lease liabilities

The movements of lease liabilities during the year were as follows:

	Buildings	
	2022	2021
	EGP '000	EGP '000
As at January 1,	89,748	113,131
Interest on lease liabilities (Note 32)	14,009	15,320
Payments during the year	<u>(38,703)</u>	<u>(38,703)</u>
As at December 31,	<u>65,054</u>	<u>89,748</u>

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2022

7 Leases (continued)

II. Lease liabilities (continued)

Lease liabilities are presented in the consolidated statement of financial position as follows:

	2022 EGP '000	2021 EGP '000
Non-current liabilities	34,939	63,962
Current liabilities	30,115	25,786
	<u>65,054</u>	<u>89,748</u>

Commitments in relation to leases payable and present value of lease liabilities are as follows:

	Buildings	
	2022 EGP '000	2021 EGP '000
Commitments in relation to leases		
Within one year	38,704	38,705
Later than one year and less than five years	38,704	77,408
Minimum lease payments	<u>77,408</u>	<u>116,113</u>
Present value of lease liabilities		
Within one year	30,115	25,786
Later than one year and less than five years	34,939	63,962
Present value of minimum lease payments	<u>65,054</u>	<u>89,748</u>

8 Goodwill and other intangible assets

	2022 EGP '000	2021 EGP '000
Goodwill (Note 8.1)	315,214	315,214
Other intangible assets (Note 8.2)	72,844	87,275
	<u>388,058</u>	<u>402,489</u>

8.1 Goodwill

Goodwill has arisen on the acquisition of Al Ezz Dekheila Steel Company – Alexandria during previous years. At the reporting date, this goodwill has been carried at an amount initially recognised at the time of acquisition of the afore-said subsidiary less accumulated impairment losses, if any.

Goodwill is monitored by management at the level of the respective cash generating unit. The impairment of goodwill is reviewed annually to ensure that its carrying value does not exceed the recoverable amounts.

As at the reporting date, the management has assessed that the carrying value of goodwill is less than their recoverable amount, hence, no impairment loss was recognised in this regard in these consolidated financial statements (2021: EGP Nil). The recoverable amount of any of the cash generating unit is based on the certain key assumptions.

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8 Goodwill and other intangible assets (continued)

8.2 Other intangible assets

	Software EGP '000	Licenses EGP '000	Total EGP '000
2022			
<i>Gross carrying amount</i>			
As at January 1, 2022	103,381	35,857	139,238
Additions	844	-	844
As at December 31, 2022	<u>104,225</u>	<u>35,857</u>	<u>140,082</u>
<i>Accumulated amortization</i>			
As at January 1, 2022	46,840	5,123	51,963
Charge for the year	10,152	5,123	15,275
As at December 31, 2022	<u>56,992</u>	<u>10,246</u>	<u>67,238</u>
Net carrying amount as at December 31, 2022	<u>47,233</u>	<u>25,611</u>	<u>72,844</u>
	Software EGP '000	Licenses EGP '000	Total EGP '000
2021			
<i>Gross carrying amount</i>			
As at January 1, 2021	102,811	35,857	138,668
Additions	570	-	570
As at December 31, 2021	<u>103,381</u>	<u>35,857</u>	<u>139,238</u>
<i>Accumulated amortization</i>			
As at January 1, 2021	37,033	-	37,033
Charge for the year	9,807	5,123	14,930
As at December 31, 2021	<u>46,840</u>	<u>5,123</u>	<u>51,963</u>
Net carrying amount as at December 31, 2021	<u>56,541</u>	<u>30,734</u>	<u>87,275</u>

Amortization expenses included in the consolidated statement of profit or loss are allocated as follows:

	2022 EGP '000	2021 EGP '000
Cost of sales (Note 26)	5,123	5,123
Administrative and general expenses (Note 27)	10,152	9,807
	<u>15,275</u>	<u>14,930</u>

9 Investment in associates

	Effective ownership		Carrying amount	
	2022 %	2021 %	2022 EGP '000	2021 EGP '000
Egyptian German Co. for Flat Steel Marketing (Franco) (L.L.C) (Under Liquidation)	32.03%	32.03%	90	90
The Egyptian Company for Cleaning and Security Services	30.80%	30.80%	80	80
Al Ezz El Dekheila for Steel – Egypt	32.03%	32.03%	25	25
EZDK Steel UK Ltd.	32.03%	32.03%	1	1
			<u>196</u>	<u>196</u>
Impairment losses on investment in associates			<u>(196)</u>	<u>(91)</u>
			<u>-</u>	<u>105</u>

The values of these investments have fallen to zero. Therefore, the Group has stopped recognition of further losses under the equity method for these investments. Management has assessed that neither of these associates are material to the Group.

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10 Financial assets at fair value through other comprehensive income

The Group has designated the investments, as shown below, as financial assets at fair value through other comprehensive income ("FVOCI") because the Group intends to hold these investments for a long term and strategic purposes:

	Effective ownership		Carrying amount	
	2022	2021	2022	2021
	%	%	EGP '000	EGP '000
<i>Unquoted equity securities</i>				
Egyptian Steel Company for Management of Steel Factories Projects ("Egyptian Steel")(a)	11.53%	-	2,499,960	-
Arab Company for Special Steel (b)	0.64%	0.64%	4,263	4,263
Atlantic Pacific Transport Ltd. (c)	2.89%	2.89%	4,016	4,016
<i>Collective investment scheme</i>				
Mazid Investment Fund (d)			13,000	-
			2,521,239	8,279
Cumulative changes in fair value			(717)	(717)
			2,520,522	7,562

No strategic investments were disposed during the year 2022 (2021: Nil), and there were no transfers of any cumulative gains or loss relating to these investments within equity.

(a) Egyptian Steel

During the year ended December 31, 2022, the Group invested in shares of Egyptian Steel, a company engaged in production of steel rebars and iron billets, through Al Ezz El Dekheila for Steel – Alexandria (a subsidiary) at cost of EGP 2,500 million.

An amount of EGP 1,250 million was paid during the year and balance amount of EGP 1,250 million is recorded as payable as at December 31, 2022 (Note 22). This remaining payable will be settled in two equal instalments with the first payment due 12 months after the ownership transfer date and second instalment due 24 months after the ownership transfer. No interest is associated with these payments.

The management has assessed that the fair value of the afore-said investment, as at December 31, 2022, is approximately equal to the carrying cost.

(b) Arab Company for Special Steel

The Group holds the shares of Arab Company for Special Steel through its subsidiary, Al Ezz El Dekheila for Steel – Alexandria. The management has assessed that the fair value of the afore-said investment, as at December 31, 2022, is approximately equal to EGP Nil (2021: EGP Nil).

(c) Atlantic Pacific Transport Ltd.

The Group holds the shares of Atlantic Pacific Transport Ltd. through its subsidiary, Iron for Industrial, Trading and Constructing Steel (Contra Steel). Atlantic Pacific Transport Ltd. has been wound up subsequent to the reporting date and the investment has been fully derecognised accordingly.

(d) Mazid Investment Fund

During the year ended December 31, 2022, the Group invested in a collective investment scheme with Mazid Investment Fund with an amount of EGP 13 million.

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10 Financial assets at fair value through other comprehensive income (continued)

Cumulative fair value

The movement in cumulative changes in fair value during the year is as follows:

	2022 EGP '000	2021 EGP '000
As at January 1,	717	4,263
Change in fair value during the year – recognized in OCI	-	(3,546)
As at December 31,	<u>717</u>	<u>717</u>

11 Inventories

	2022 EGP '000	2021 EGP '000
Raw materials	4,275,038	4,524,310
Spare parts and consumables	2,326,617	1,950,826
Finished goods	1,745,615	2,221,315
Work in process	533,249	704,872
Goods in transit	3,786	160,923
	<u>8,884,305</u>	<u>9,562,246</u>
Less: provision for slow-moving and obsolete inventories	<u>(160,115)</u>	<u>(115,115)</u>
	<u>8,724,190</u>	<u>9,447,131</u>

The movement in provision for obsolete and slow-moving inventory during the year is as follows:

	2022 EGP '000	2021 EGP '000
As at January 1,	115,115	27,324
Charge for the year (Note 30)	45,000	87,791
As at December 31,	<u>160,115</u>	<u>115,115</u>

12 Financial instruments by category

	2022 EGP '000	2021 EGP '000
<i>Financial assets at fair value through OCI</i>		
Unquoted equity investments	<u>2,520,522</u>	<u>7,562</u>
<i>Financial assets at amortised cost</i>		
Trade and other receivables	9,100,177	6,109,991
Treasury bills	566,332	132,261
Cash and bank balances	12,815,380	3,481,292
	<u>22,481,889</u>	<u>9,723,544</u>
<i>Financial liabilities at amortised cost</i>		
Borrowings	32,770,188	34,839,592
Trade and other payables	20,179,770	10,406,703
Bank overdraft	638,717	270,398
Lease liabilities	65,054	89,748
	<u>53,653,729</u>	<u>45,606,441</u>

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12 Financial instruments by category (continued)

Trade and other receivables and trade and other payables disclosed above include only financial assets and liabilities (refer to Notes 13 and 22 for details). Refer to Note 4 for a description of the accounting policies for each category of financial instruments.

A description of the Group's consolidated financial statements risk, including risk management objectives and policies is disclosed in Note 38 and details about fair values of these financial assets and liabilities are described in Note 39.

13 Trade and other receivables

	2022	2021
	EGP '000	EGP '000
<i>Financial assets at amortized cost</i>		
Trade receivables	2,029,061	2,771,711
Notes receivable	4,244,318	1,607,569
Trade receivables due from related parties (Note 34)	9,297	9,048
Trade and notes receivables – gross (Note 25)	6,282,676	4,388,328
Less: allowance for expected credit losses of trade receivables	(40,559)	(40,559)
Trade and notes receivables – net	6,242,117	4,347,769
Deposits	1,328,660	1,272,913
Letters of credit - cash margins	1,500,737	463,729
Due from related parties (Note 34)	28,498	24,265
Letters of guarantee - cash margins	165	1,315
	<u>9,100,177</u>	<u>6,109,991</u>
<i>Non-financial assets</i>		
Refundable taxes	1,711,268	2,039,403
Value added taxes receivables	992,903	1,227,071
Advances to suppliers and employee loans	742,370	954,684
Tax receivables from the Custom Authority	463,995	232,246
Claims receivables	105,097	119,109
Prepayments	267,556	420,519
Other debit balances	60,824	83,611
Less: impairment losses on other receivables	(130,387)	(95,223)
	<u>4,213,626</u>	<u>4,981,420</u>
	<u>13,313,803</u>	<u>11,091,411</u>

Trade and other receivables are classified as follows in the consolidated statement of financial position:

	2022	2021
	EGP '000	EGP '000
Non-current portion	57,507	47,632
Current portion	13,256,296	11,043,779
	<u>13,313,803</u>	<u>11,091,411</u>

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within immediately days and therefore are all classified as current. Details about the Group's impairment policies and calculation of the expected loss allowance are provided in Notes 4 and 38, respectively.

Impairment losses on other receivables incurred during the year ended December 31, 2022 amounted to EGP 35.16 million (2021: EGP 52.82 million).

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14 Financial assets at amortised cost - Treasury Bills

	2022 EGP '000	2021 EGP '000
Gross amounts at redemption	574,143	133,900
Less: unearned interest	(7,811)	(1,639)
Amount of Treasury Bills paid	<u>566,332</u>	<u>132,261</u>
Interest income recognised in profit or loss (Note 31)	<u>34,175</u>	<u>28,095</u>

The average effective interest rate related to treasury bills is 15.61% (2021: 12.31%).

The Group has adopted 12-month ECL model, based on management assessment, there is an immaterial impact on the outstanding balance of Treasury Bills due to the following factors:

- They are issued and guaranteed by the Government of Egypt;
- There is no history of default; and
- Incorporating forward-looking information would not result in any significant increase in expected default rate.

15 Cash and cash equivalents

	2022 EGP '000	2021 EGP '000
Bank balances - current accounts	12,485,328	3,071,710
Bank balances - time deposits*	5,973	244,160
Cheques under collection	234,779	115,492
Cash in hand	89,300	49,930
Cash and bank balances	<u>12,815,380</u>	<u>3,481,292</u>
Less: bank overdraft (Note 21)	(638,717)	(270,398)
Less: restricted bank balances**	<u>(1,097,208)</u>	<u>(132,059)</u>
Cash and cash equivalents	<u>11,079,455</u>	<u>3,078,835</u>

* The average rate on time deposits is 3 months LIBOR plus 1% during the year ended December 31, 2022 (2021: 3 months LIBOR plus 1%) with a maturity of 3 months.

** Restricted bank balances are withheld with the Group's bankers under credit facilities' agreements.

16 Share capital

The Company's authorized share capital amounted to EGP 8,000 million, represented in 1,600 million shares of par value of EGP 5 each. As at December 31, 2022 and 2021, the issued and paid-up capital is distributed as follows:

	2022		
	No. of Shares	Shares value EGP '000	Percentage of ownership
Shareholders			
Engineer Ahmed Abd El Aziz Ezz	356,933,139	1,784,666	65.70%
Treasury shares	10,373,195	51,866	1.91%
Others (public stocks)	175,958,693	879,793	32.39%
	<u>543,265,027</u>	<u>2,716,325</u>	<u>100.00%</u>

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16 Share capital (continued)

	2021		
	No. of Shares	Shares value EGP '000	Percentage of ownership
Shareholders			
Engineer Ahmed Abd El Aziz Ezz	356,933,139	1,784,666	65.70%
Treasury shares	10,373,195	51,866	1.91%
Others (public stocks)	175,958,693	879,793	32.39%
	<u>543,265,027</u>	<u>2,716,325</u>	<u>100.00%</u>

A. Dividends

The Board of Directors proposed and shareholders approved dividends of EGP 426.3 million in the General Assembly meeting held on April 20, 2022 in relation to the net profit for the year ended December 31, 2021 (2021: EGP Nil)

B. Treasury shares

In prior years, the Group had acquired treasury shares at a value of EGP 10.4 million. As at December 31, 2022, these shares are outstanding for more than one year since their acquisition. The treasury shares are represented as follows:

- 9,462,714 shares (with an acquisition value of EGP 71.92 million). These shares are held in the name of Al Ezz Rolling Mills (a subsidiary) at the reporting date.
- 910,481 shares (with an acquisition value of EGP 10.38 million), purchased by the Company in pursuance with the Board of Directors decision on January 5, 2021 for purchase of 1% of paid-capital, up-to the maximum of one million shares.

17 Reserves

	2022 EGP '000	2021 EGP '000
Legal reserve (A)	1,358,163	1,358,163
Other reserves (B)	(1,176,073)	(1,176,073)
	<u>182,090</u>	<u>182,090</u>

A. Legal reserve

In accordance with Company Law No. 159 of 1981 and the Company's Articles of Association, 5% of annual net profit is transferred to the legal reserve. The Group may discontinue such transfers when the legal reserve reaches 50% of the share capital. The reserve is not eligible for distribution to the shareholders.

During the year ended December 31, 2022, the Group did not transfer to statutory reserve (2021: EGP Nil).

B. Other reserves

In previous years, the Group acquired additional ownership interest in its existing subsidiary i.e. Al Ezz Dekheila Steel Company – Alexandria from non-controlling interests. Accordingly, the difference in the amount paid as consideration and the carrying amount of the non-controlling interest acquired has recognised as other reserve in equity, as follows:

	EGP '000
Carrying amounts of non-controlling interest acquired	2,620,756
Consideration paid to non-controlling interest	(3,796,829)
	<u>(1,176,073)</u>

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18 Borrowings

	2022		
	Current EGP '000	Non-current EGP '000	Total EGP '000
Ezz Steel Company (S.A.E) (18.1)	4,415,908	538,194	4,954,102
Al Ezz Dekheila Steel Company – Alexandria (18.2)	10,119,783	10,566,200	20,685,983
Al Ezz Rolling Mills Company (18.3)	1,113,330	3,896,537	5,009,867
Al Ezz Flat Steel (18.4)	1,385,735	734,501	2,120,236
	17,034,756	15,735,432	32,770,188

	2021		
	Current EGP '000	Non-current EGP '000	Total EGP '000
Ezz Steel Company (S.A.E) (18.1)	4,164,632	890,392	5,055,024
Al Ezz Dekheila Steel Company - Alexandria (18.2)	15,886,533	5,593,873	21,480,406
Al Ezz Rolling Mills Company (18.3)	909,390	5,009,832	5,919,222
Al Ezz Flat Steel (18.4)	1,219,192	1,165,748	2,384,940
	22,179,747	12,659,845	34,839,592

18.1 Ezz Steel Company (S.A.E)

	Term loans EGP '000	Credit Facilities EGP '000	Total EGP '000
December 31, 2022	890,702	4,063,400	4,954,102
December 31, 2021	1,139,072	3,915,952	5,055,024

Term loans

On January 18, 2015, the Group signed an agreement with the National Bank of Egypt and the Arab African International Bank ("Security Agent") for a joint long-term loan of EGP 1.7 billion.

The loan has a tenure of 7 years, payable in 26 non-equal quarterly instalments and carries interest at 3.5% above 3 months' lending rate of the Central Bank of Egypt. The loan is secured against first degree funds de commerce mortgage on the Company including Sadat factory.

Credit facilities

The Group obtained credit facilities from various banks in Egypt amounting to EGP 4,063 million (2021: EGP 3,916 million). The Group is obligated to pay the due amounts in full whenever the facilities are due.

The interest rate is 1.5% to 2% above corridor rate. The facilities are secured by promissory notes for the full facility amount.

18.2 Al Ezz Dekheila Steel Company – Alexandria

	Term loans EGP '000	Credit Facilities EGP '000	Total EGP '000
December 31, 2022	5,706,565	14,979,418	20,685,983
December 31, 2021	2,140,168	19,340,238	21,480,406

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18 Borrowings (continued)

18.2 Al Ezz Dekheila Steel Company – Alexandria (continued)

Term loans

	2022 EGP '000	2021 EGP '000
National Bank of Egypt	1,897,290	-
Qatar National Bank	1,287,030	645,645
Arab African International Bank	654,324	555,407
Bank of Alexandria	632,606	526,646
Banque Du Caire	480,175	-
National Bank of Kuwait	286,267	230,841
Hongkong and Shanghai Banking Corporation	204,873	181,629
Export Development Bank of Egypt	264,000	-
	5,706,565	2,140,168

Banks	Guarantees/ securities	Currency	Instalments	Interest rate
National Bank of Egypt	Restriction on disposal of assets	EGP	20 quarterly instalments ending on June 15, 2028	2% above corridor rate
Qatar National Bank	Right to seize assets in case of default	EGP	26 quarterly instalments ending on January 31, 2029	1% above corridor rate
Qatar National Bank (foreign currency loan)	Right to seize assets in case of default	USD	26 quarterly instalments ending on August 31, 2025	4% plus LIBOR rate
Arab African International Bank	An insurance policy with 110% of outstanding balance.	USD	28 quarterly instalments ending on November 28, 2025	4% plus LIBOR rate
Bank of Alexandria	Restriction on disposal of assets	USD	26 quarterly instalments ending on January 15, 2026	4% plus LIBOR rate
Banque Du Caire	An insurance policy with 110% of outstanding balance	USD	28 quarterly instalments ending on December 31, 2028	2% above corridor rate
Banque Du Caire (foreign currency loan)	Insurance policy with 110% of outstanding balance	EGP	28 quarterly instalments ending on December 31, 2028	3.5% plus LIBOR rate
National Bank of Kuwait	Restriction on disposal of assets	USD	26 quarterly instalments ending on August 28, 2026	3.5% plus LIBOR rate
Hongkong and Shanghai Banking Corporation	Collection of foreign currency proceeds through a designated bank account	EGP	12 semi annual instalments ending on January 15, 2026	2% plus corridor rate
Hongkong and Shanghai Banking Corporation (foreign currency loan)	Collection of foreign currency proceeds through a designated bank account	EURO	12 semi annual instalments ending on January 15, 2026	3.5% plus LIBOR rate
Export Development Bank of Egypt	Right to seize assets in case of default	EGP	24 quarterly instalments ending on February 17, 2028	1.25% to 1.5% above corridor rate

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18 Borrowings (continued)

18.2 Al Ezz Dekheila Steel Company – Alexandria (continued)

Credit facilities

The Group obtained credit facilities from various banks amounting to EGP 14,979 million (2021: EGP 19,340 million).

These credit facilities have maturities ranging from 1 to 26 months and carry interest rates at prevailing market rates.

18.3 Al Ezz Rolling Mills Company

	Term loans EGP '000	Credit Facilities EGP '000	Total EGP '000
December 31, 2022	5,009,834	33	5,009,867
December 31, 2021	5,721,105	198,117	5,919,222

Term loan

The Group obtained a loan from National Bank of Egypt amounting to EGP 5,009 million (2021: EGP 5,721 million).

The interest rate is 1.5% to 2% above corridor rate. The loan is secured through mortgage of property, plant and equipment of Al Ezz Rolling Mills Company.

Credit facility

The Group obtained a credit facility from National Bank of Egypt and Bank Misr amounting to EGP 0.33 million (2021: EGP 198 million).

The credit facility has maturity of 12 months and carry interest rate at 1.5% above corridor rate.

18.4 Al Ezz Flat Steel

	Term loans EGP '000	Credit facilities EGP '000	Total EGP '000
December 31, 2022	1,025,255	1,094,981	2,120,236
December 31, 2021	906,581	1,478,359	2,384,940

Term loans

The Group obtained loans from National Bank of Egypt, Bank Misr and SACE Bank amounting to EGP 1,025 million (2021: EGP 907 million).

The interest rate is 1.5% above corridor rate or 3.5% plus LIBOR rate. The loans are secured through banks' right to seize assets in case of default on payments.

Credit facilities

The Group obtained credit facilities from National Bank of Egypt and Bank Misr. amounting to EGP 1,095 million (2021: EGP 1,478 million).

These credit facilities have maturities up to 51 months and carry interest rates at prevailing market rates.

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18 Borrowings (continued)

18.5 Movement in borrowings

	2022 EGP '000	2021 EGP '000
As at January 1,	34,839,592	34,764,487
(Repayments of)/proceeds from loan facilities during the year – net	(3,510,195)	81,335
Effect of foreign currency differences	1,440,791	(6,230)
As at December 31,	<u>32,770,188</u>	<u>34,839,592</u>

18.6 Fair values of the loans

Fair value of the loans is approximately equal to their carrying values since the loans are bearing market prevailing variable interest rates.

18.7 Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offer rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

As at December 31, 2022, the Group's IBOR exposure, indexed to EURO and USD LIBOR, is limited to multiple existing loans. The management is under discussion with the respective borrowers for necessary amendments to these loan agreements having contractual terms indexed to EURO and USD LIBOR. The management believes that the impact of revision of the loan agreements will not have a material impact on the consolidated financial statements of the Group in future periods (refer to Notes from 18.1 to 18.4 for details).

19 Employee benefit obligations

Some entities within the Group maintain a Supplementary Pension Scheme for their employees. These employees are entitled to benefits upon their retirement based on a defined benefit plan. The entitlement is based on the length of service i.e. minimum number of years served and final remuneration package of the employee upon retirement (refer to Note 4). The plan is fully funded by the Group and no separately administered fund has been established in this regard. The defined benefit obligation is calculated using the projected credit unit method.

The amounts recognised at the consolidated statement of financial position date and movement thereon, are disclosed as follows:

	2022 EGP '000	2021 EGP '000
Balance as at January 1,	246,343	217,500
Provision for employees' benefit obligations	48,420	31,691
Actuarial (gain)/loss on measurement of defined benefit liability	(63,585)	4,227
Contributions received from employees during the year	7,368	8,486
Payments/adjustments during the year	(19,349)	(15,561)
Balance as at December 31	<u>219,197</u>	<u>246,343</u>

Employee benefit obligations are classified as follows in the consolidated statement of financial position:

	2022 EGP '000	2021 EGP '000
Non-current portion	192,482	221,242
Current portion (Note 22)	26,715	25,101
	<u>219,197</u>	<u>246,343</u>

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19 Employee benefit obligations (continued)

The break-up of provision for the year is as follows:

	2022 EGP '000	2021 EGP '000
Current service cost	16,705	2,825
Interest on defined benefit obligation	31,715	28,866
	<u>48,420</u>	<u>31,691</u>

The break-up of actuarial (gain)/loss on measurement of defined benefit liability is as follows:

	2022 EGP '000	2021 EGP '000
Impact of changes in financial assumptions	(39,390)	(1,782)
Impact of changes in experience adjustments	(24,195)	6,009
	<u>(63,585)</u>	<u>4,227</u>

Provision for the year has been included in the consolidated statement of profit or loss are as follows:

	2022 EGP '000	2021 EGP '000
Cost of sales (Note 26)	38,056	24,865
Administrative and general expenses (Note 27)	7,673	5,068
Selling and marketing expenses (Note 28)	2,691	1,758
	<u>48,420</u>	<u>31,691</u>

Actuarial assumptions

	2022	2021
Discount rate		
- Net benefit obligations	17.00%	14.70%
- Net cost	14.70%	14.60%
Life table (years)	A49-52	A49-52

20 Deferred taxation

20.1 Recognised deferred tax assets and liabilities

	2022		2021	
	Assets EGP '000	Liabilities EGP '000	Assets EGP '000	Liabilities EGP '000
Property, plant and equipment	-	(2,887,300)	-	(2,916,691)
Provisions and impairment	134,497	-	107,722	-
Lease liabilities	14,685	-	20,487	-
Carried forwarded tax losses	1,054,216	-	1,095,815	-
Tax on unpaid dividends	-	(258,227)	-	(66,425)
Foreign currency differences	581,987	-	34,144	(41,006)
	<u>1,785,385</u>	<u>(3,145,527)</u>	<u>1,258,168</u>	<u>(3,024,122)</u>

As at the reporting date, the Group has recognized deferred tax assets on carried forward tax losses of Al Ezz Flat Steel and Al Ezz Rolling Mills Company. The management has assessed that the Group will be able to adjust these tax losses against profits in the future years, based on the 5 years' budgets of these subsidiaries.

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20 Deferred taxation (continued)

20.2 Movement of deferred tax liabilities - net

	2022	2021
	EGP '000	EGP '000
Balance as at January 1,	1,765,954	875,444
Adjustments during the year	(22,453)	-
Charged to consolidated statement of profit or loss (Note 23.1)	(383,359)	890,510
Balance as at December 31,	<u>1,360,142</u>	<u>1,765,954</u>

20.3 Unrecognised deferred tax assets

	2022	2021
	EGP '000	EGP '000
Impairment losses on other receivables	11,317	10,850
Provisions	132,341	101,084
Tax losses	481,120	1,017,681
	<u>624,778</u>	<u>1,129,615</u>

The deferred tax assets have not been recognised in respect of the above items due to uncertainty of the utilization of their benefits in the foreseeable future. The Group does not expect tax losses that are available for offsetting against future taxable profits.

21 Bank overdraft

Bank overdraft amounted to EGP 638.7 million as at December 31, 2022 (2021: EGP 270.4 million). This facility forms an integral part of the Group's cash management to finance its working capital. The average interest rate for bank overdraft was 1.5% to 3.5% above corridor rate during the year ended December 31, 2022 (2021: 1.5% to 3.5% above corridor rate).

22 Trade and other payables

	2022	2021
	EGP '000	EGP '000
<i>Financial liabilities at amortized cost</i>		
Trade payables	11,975,484	4,201,269
Accrued expenses	1,676,588	1,467,563
Notes payable	3,707,701	3,495,255
Payable against acquisition of shares of Egyptian Steel (Note 10)	1,249,980	-
Payable to supplier against acquisition of property, plant and equipment	999,876	820,440
Accrued interest	415,186	259,026
Retention payables	96,747	90,217
Due to related parties (Note 34)	56,596	71,324
Dividends payables	1,612	1,609
	<u>20,179,770</u>	<u>10,406,703</u>
<i>Non-financial liabilities</i>		
Advance from customers (Note 25)	1,829,753	1,708,783
Value added tax payables	327,706	236,443
Withholding tax payable	139,889	83,963
Payable to port authorities	96,483	96,483
Current portion of employee benefit obligation (Note 19)	26,715	25,101
Social insurance payable	19,054	14,921
Other credit balances	102,734	10,761
	<u>2,542,334</u>	<u>2,176,455</u>
	<u>22,722,104</u>	<u>12,583,158</u>

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22 Trade and other payables (continued)

Trade and other payables are classified as follows in the consolidated statement of financial position:

	2022	2021
	EGP '000	EGP '000
Non-current portion	3,121,114	3,215,353
Current portion	19,600,990	9,367,805
	<u>22,722,104</u>	<u>12,583,158</u>

Trade payables include an amount of EGP 1,847.7 million (2021: 3,339.5 million) payable to electricity and natural gas supplying companies. These balances had original maturities upto 48 months and carried interest rates at 8.75% (2021: 8.75%).

Trade payables also include an amount of USD 37 million, equivalent to EGP 915.6 million (2021: EGP 583 million) borrowed by Al Ezz Flat Steel Company, a subsidiary from one of the suppliers of the Group i.e. Daneili Company. This amount carries interest at variable rates linked to LIBOR plus 1.2%.

Payable to suppliers against acquisition of property, plant and equipment represents amount due to Danieli Company by Al Ezz Flat Steel and Al Ezz Rolling Mills Company, a subsidiary against purchase of fixed assets in prior years. The amount is payable in quarterly instalments ending in 2026 and carries interest at 1%. The amount is secured by joint guarantees from the Company and Al Ezz Dekheila Steel Company - Alexandria.

23 Taxation

23.1 Income tax expense

	2022	2021
	EGP '000	EGP '000
<i>Current tax expense</i>		
- Current year (Note 23.3)	2,484,140	929,832
<i>Deferred tax</i>		
- Origination and reversal of temporary differences (Note 20.2)	(383,359)	890,510
	<u>2,100,781</u>	<u>1,820,342</u>

23.2 Reconciliation of tax expense

	2022	2021
	EGP '000	EGP '000
Net profit for the year before income tax	7,945,990	7,376,148
Income tax according to the current tax law (22.5%)	(1,787,848)	(1,659,633)
Tax on dividends from subsidiaries and associates	(40,064)	(289)
Provisions and impairment	(34,760)	(38,051)
Exempted investments income	(23,565)	127
Tax impact on treasury bills	848	679
Adjustments on other items	(122,232)	(56,750)
Previous years' tax differences	98,640	-
Tax on undistributed profit in subsidiaries and associates	(191,800)	(66,425)
Income tax expense (Note 23.1)	<u>(2,100,781)</u>	<u>(1,820,342)</u>
Effective tax rate	<u>26%</u>	<u>25%</u>

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23 Taxation (continued)

23.3 Movement of current income tax liabilities

	2022 EGP '000	2021 EGP '000
As at January 1,	929,489	34,304
Income tax paid during the year	(143,512)	(34,304)
Withholding tax receivable	(785,975)	-
Income tax for the year (Note 23.1)	2,484,140	929,832
Adjustment during the year	(40,034)	(343)
As at December 31,	2,444,108	929,489

23.4 Tax positions

Due to the nature of tax assessment process in jurisdiction where the Group is operating, the final outcome of tax liabilities are contingent upon the inspection and final assessment by the tax authorities. Below is a summary of the tax status of the significant components of the Group as at reporting date.

A. Ezz Steel Company

Corporate Tax

The Company was exempt from income tax for a 10 years' period from January 1, 1997 to December 31, 2006, in accordance with article No. (24) of Law No. (59) for 1979 related to development of the New Urban Communities.

The tax inspection was performed for the period from the Company's inception till December 31, 2017, and all taxes due were paid.

For the years from 2018 to 2020, the Company has filed the tax returns and has paid the related tax liabilities. However, the tax inspection is still in the process by relevant tax authorities.

For tax years 2021 and 2022, the Company has filed the tax returns and has paid the related tax liabilities. Further, the Company has not been inspected by the relevant tax authorities yet for these periods.

Sales Tax and VAT

The tax inspection was performed for the period from the Company's inception till 2015, and all taxes due were paid.

The tax inspection was done for years from 2016 to 2020 and differences were settled by the tax authorities through deduction from the Company's credit balance.

For the years 2021 and 2022, the Company has submitted monthly tax returns on time to the relevant tax authorities. However, the Company has not been inspected by the relevant tax authorities yet for these periods.

Salary Tax

The tax inspection was performed for the period from the Company's inception till 2018, and all taxes due were paid.

The tax inspection was performed for the years from 2019 to 2020 has been concluded and the settlement of difference identified is in process.

For the years 2021 and 2022, the Company has submitted annual tax forms and payroll reconciliations on time to the relevant tax authorities. However, the Company has not been inspected by the relevant tax authorities yet for these periods.

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23 Taxation (continued)

23.4 Tax positions (continued)

A. Ezz Steel Company (continued)

Stamp Tax

The tax inspection was performed for the periods from inception till the end of December 31, 2018, and the tax resulting from the tax inspection and assessment were settled and paid to the relevant tax authorities.

For the period from 2019 to 2022, the Company paid all tax dues.

Property Tax

The tax assessment has been issued and paid up to December 31, 2021.

Corporate Tax

The tax inspection was performed till December 31, 2017, and all taxes due were paid.

For the years from 2018 to 2020, EZDK has filed the tax returns in its legal periods and has paid the tax liability. However, the tax inspection is in process by relevant tax authorities.

B. Al Ezz Dekheila Steel Company – Alexandria (EZDK)

Corporate Tax

For tax years 2021 and 2022, EDZK has filed tax returns and has paid the tax dues. Further EDZK has not been inspected by the relevant tax authorities yet for these periods.

Sales Tax and VAT

The tax inspection was performed till 2020, and all taxes due were paid.

For the years 2021 and 2022, EZDK has submitted monthly tax returns on time to the relevant tax authorities. However, EZDK has not been inspected by the relevant tax authorities yet for these periods.

Salary Tax

The tax inspection was performed for the period till 2016, and all taxes due were paid.

The tax inspection was performed for the years from 2017 to 2019 has been concluded and the settlement of difference identified is in process.

For the years 2020, 2021 and 2022, EZDK has submitted annual tax forms and payroll reconciliations on time to the relevant tax authorities. However, EZDK has not been inspected by the relevant tax authorities yet for these periods.

Stamp Tax

The tax inspection was performed for the periods from inception till the end of December 31, 2020, and the tax resulting from the tax inspection and assessment were settled and paid to the relevant tax authorities.

For the years 2021 and 2022, EZDK paid all tax dues.

Property Tax

The tax assessment has been issued and paid up to December 31, 2021.

Pending disputes: EZDK has submitted a request to the Agamy Real Estate Taxes Authority in order to benefit from the Prime Minister's Resolution No. 61 of 2022 which states that the Ministry of Finance will bear the tax on real estate built for industrial sectors. The request is currently in process.

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23 Taxation (continued)

23.4 Tax positions (continued)

C. AI Ezz Flat Steel (EFS)

Corporate Tax

The tax inspection was performed till December 31, 2018, and all taxes due were paid.

For tax years from 2019 to 2022, EFS has filed tax returns and has paid the tax liability. Further EFS has not been inspected by the relevant tax authorities yet for these periods.

Sales Tax and VAT

The tax inspection was performed till 2020, and all taxes due were paid.

For the years 2021 and 2022, EFS has submitted monthly tax returns on time to the relevant tax authorities. However, EFS has not been inspected by the relevant tax authorities yet for these periods.

Salary Tax

The tax inspection was performed for the period till 2019, and all taxes due were paid.

For the years 2020, 2021 and 2022, EFS has submitted annual tax forms and payroll reconciliations on time to the relevant tax authorities. However, EFS has not been inspected by the relevant tax authorities yet for these periods.

Stamp Tax

The tax inspection was performed for the period till December 31, 2020, and all taxes due were paid.

For the years 2021 and 2022, EFS paid all tax dues.

Property Tax

The tax assessment has been issued and paid up to December 31, 2021.

D. AI Ezz Rolling Mills Company (ERM)

Corporate Tax

The Company was exempt from tax for the period from its inception till December 31, 1999, in accordance with article No. (24) from Law No. (59) for 1979 related to development of the New Urban Communities.

The tax inspection was performed till December 31, 2017, and there are no outstanding dues.

For tax years from 2018 to 2022, ERM has filed tax returns, but, not been inspected by the relevant tax authorities yet for these periods.

Sales Tax and VAT

The tax inspection was performed till 2018, and all taxes due were paid.

The tax inspection was also performed for 2019 and 2020. However, the original tax has been paid pending the final settlement.

For the years 2021 and 2022, ERM has submitted monthly tax returns on time to the relevant tax authorities. However, ERM has not been inspected by the relevant tax authorities yet for these periods.

Salary Tax

The tax inspection was performed for the period till 2015, and all taxes due were paid.

The tax inspection was also performed for 2016 till 2018. However, the disputes are pending resolution under Internal Committee. The tax inspection was also performed for 2019 and 2020. However, the original tax has been paid pending the final settlement.

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23 Taxation (continued)

23.4 Tax positions (continued)

D. Al Ezz Rolling Mills Company (ERM) (continued)

Salary Tax (continued)

For the years 2020, 2021 and 2022, ERM has submitted annual tax forms and payroll reconciliations on time to the relevant tax authorities. However, ERM has not been inspected by the relevant tax authorities yet for these periods.

Stamp Tax

The tax inspection was performed for the period till December 31, 2020, and all taxes due were paid.

For the years 2021 and 2022, ERM paid all tax dues.

Property Tax

The tax assessment has been issued and paid up to December 31, 2022.

24 Provisions

	Government and third parties' claims EGP '000	Employees lawsuits EGP '000	Total EGP '000
<i>December 31, 2022</i>			
As at January 1, 2022	555,547	1,955	557,502
Provisions formed during the year (Note 30)	228,817	-	228,817
Provisions utilized during the year	(173,947)	-	(173,947)
As at December 31, 2022	610,417	1,955	612,372
	Government and third parties' claims EGP '000	Employees lawsuits EGP '000	Total EGP '000
<i>December 31, 2021</i>			
As at January 1, 2021	288,583	1,955	290,538
Provisions formed during the year (Note 30)	340,990	-	340,990
Provisions utilized during the year	(74,026)	-	(74,026)
As at December 31, 2021	555,547	1,955	557,502

Provisions relate to claims expected to be made by authorities, employees and third parties in connection with the Group's operations and obligations. The provisions are re-assessed and reviewed by management at each reporting date and the amount provided is adjusted based on latest development, discussions and agreements with concerned parties.

25 Revenue from contracts with customers

A. Disaggregation of revenue from contracts with costumers

The Group derives revenue from the transfer of goods at a point in time. The Group disaggregate revenue by products line and by geographical location as disclosed in Note 37 (segment reporting).

B. Contract balances

	2022 EGP '000	2021 EGP '000
Contract assets - Trade and notes receivables – gross (Note 13)	6,282,676	4,388,328
Contract liabilities - Advances from customers (Note 22)	1,829,753	1,708,783

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26 Cost of sales

	2022	2021
	EGP '000	EGP '000
Raw materials consumed	44,452,101	38,395,588
Utilities	11,366,695	8,720,996
Spare parts and consumables	3,239,717	2,654,796
Direct salaries and wages	2,641,201	2,262,328
Depreciation of property, plant and equipment (Note 6)	1,206,503	1,192,644
Indirect manufacturing overheads	1,078,141	1,154,022
Maintenance	319,131	289,743
Provision for employees benefit obligations (Note 19)	38,056	24,865
Amortization of intangible assets (Note 8)	5,123	5,123
Total manufacturing cost	<u>64,346,668</u>	<u>54,700,105</u>
Changes in finished goods and work in progress	647,323	(864,508)
	<u>64,993,991</u>	<u>53,835,597</u>

27 Administrative and general expenses

	2022	2021
	EGP '000	EGP '000
Salaries and wages	1,229,574	851,624
Insurance expenses	286,150	218,577
Legal and professional	90,025	58,768
Rent expenses	78,040	74,040
IT expenses	39,017	39,645
Entertainment expenses	26,982	8,860
Security and cleaning expenses	24,858	30,399
Depreciation of property, plant and equipment (Note 6)	18,440	19,260
Depreciation of Right-of-use-assets (Note 7)	18,125	18,125
Subscriptions and postage	16,267	7,239
Repair and maintenance expenses	10,754	8,415
Amortization of intangible assets (Note 8)	10,152	9,807
Provision for employees benefit obligations (Note 19)	7,673	5,068
Utilities	6,353	6,126
Other expenses	77,985	56,263
	<u>1,940,395</u>	<u>1,412,216</u>

28 Selling and marketing expenses

	2022	2021
	EGP '000	EGP '000
Salaries and wages	134,231	120,851
Exports related expenses	537,118	585,480
Advertising expenses	120,192	92,845
Freight	94,494	72,493
Provision for employees benefit obligations (Note 19)	2,691	1,758
Depreciation of property, plant and equipment (Note 6)	599	686
Other expenses	73,703	73,964
	<u>963,028</u>	<u>948,077</u>

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29 Other operating income

	2022 EGP '000	2021 EGP '000
Scrap sales	123,751	65,527
Gain on disposal of property, plant and equipment	-	900
Others	52,140	13,667
	<u>175,891</u>	<u>80,094</u>

30 Other operating expenses

	2022 EGP '000	2021 EGP '000
Donations	527,851	524,010
Provisions formed during the year (Note 24)	228,817	340,990
Provision for slow-moving and obsolete inventories (Note 11)	45,000	87,791
Impairment losses on other receivables (Note 13)	35,164	52,819
Losses on disposal of property, plant and equipment	490	-
Others	63,982	171,628
	<u>901,304</u>	<u>1,177,238</u>

Donations are in normal course of business of the Group and are generally made as part of "Corporate Social Responsibility" strategy for promotion of sports, education and welfare activities.

31 Finance income

	2022 EGP '000	2021 EGP '000
Interest income on time deposits and restricted bank balances	379,999	108,743
Interest income on treasury bills (Note 14)	34,175	28,095
	<u>414,174</u>	<u>136,838</u>

32 Finance cost

	2022 EGP '000	2021 EGP '000
Interest expense on borrowings and bank overdrafts	3,349,017	3,376,277
Interest on lease liabilities (Note 7)	14,009	15,320
	<u>3,363,026</u>	<u>3,391,597</u>

33 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit attributable to owners of the Parent (EGP '000)	<u>3,721,472</u>	<u>3,620,327</u>
Weighted average number of ordinary shares in issue		
Ordinary shares in '000 (Note 16)	543,265	543,265
Treasury shares in '000 (Note 16)	<u>(10,373)</u>	<u>(10,373)</u>
Weighted average number of ordinary shares in issue ('000)	<u>532,892</u>	<u>532,892</u>
Basic earnings per share (EGP)	<u>6.98</u>	<u>6.79</u>

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33 Earnings per share (continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group does not have any categories of dilutive potential ordinary shares. Hence, the diluted earnings per share is equivalent to the basic earnings per share.

34 Related parties

The Group entered into several transactions with companies and entities that are included within the definition of related parties, as stated in IAS 24 - Related Party Disclosures. The related parties comprise the Group' Board of Directors, their entities, companies under common control, and/or joint management and control, and their partners and employees of senior management.

The partners of joint arrangement and non-controlling interest are considered by the Group as related parties. The management decides the terms and conditions of transactions and services provided from/to related parties, as well as other expenditures.

Balances with related parties as at the reporting date are as follows:

	2022 EGP '000	2021 EGP '000
Amounts due from related parties		
<i>Entities under common control</i>		
<i>Trade receivables</i>		
Al Ezz for Trading and Distributing Building Materials (Note 13)	9,297	9,048
<i>Due from related parties</i>		
Al Ezz for Ceramics and Porcelain	28,487	24,175
Gulf of Suez Development Company	11	90
	<u>28,498</u>	<u>24,265</u>
	<u>37,795</u>	<u>33,313</u>

	2022 EGP '000	2021 EGP '000
Amounts due to related parties		
<i>Entities under common control</i>		
Al Ezz Group Holding Company for Industry and Investment	56,584	71,294
Al Ezz for Trading and Distributing Building Materials	12	30
	<u>56,596</u>	<u>71,324</u>

Transactions with related parties during the year are as follows:

	2022 EGP '000	2021 EGP '000
Sales to related parties during the year	1,035	2,567
Purchases from related parties during the year	(34)	(99)
Rent paid to related parties	(730)	(928)

Key management compensation

The amounts incurred by the Group as compensation to the Board Members and key management personnel during the years ended December 31, 2022 and 2021 are as follows:

	2022 EGP '000	2021 EGP '000
Salaries and other benefits	375,639	310,501

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35 Commitments and contingent liabilities

35.1 Capital commitments

The Group has capital commitments of EGP 79.05 million as at December 31, 2022 (2021: EGP 33 million) in respect of capital expenditure.

35.2 Contingent liabilities

	2022 EGP '000	2021 EGP '000
Letters of credit	6,416,094	2,691,394
Letters of guarantee	343,769	25,172
	<u>6,759,863</u>	<u>2,716,566</u>

These represent letters issued by commercial banks in favour of other parties in relation to payments for materials and acquisition of property, plant and equipment imported during the year.

36 Cash flow information

36.1 Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities is disclosed in Notes 7 and 18.

37 Operating segments

The Group operates across three segments in the market. No operating segments have been aggregated to form the below referred reportable operating segments. Inter-segment transactions arise in the normal course of business.

Segment	Revenue		Gross profit		Operating profit	
	2022 EGP '000	2021 EGP '000	2022 EGP '000	2021 EGP '000	2022 EGP '000	2021 EGP '000
Rebar	50,835,655	36,595,178	9,856,176	5,097,718	7,582,262	3,166,798
Flat Steel	32,061,614	30,526,775	8,406,415	8,540,222	7,110,016	7,026,768
Others	1,086,964	696,563	727,651	344,979	669,128	331,916
Total	<u>83,984,233</u>	<u>67,818,516</u>	<u>18,990,242</u>	<u>13,982,919</u>	<u>15,361,406</u>	<u>10,525,482</u>

Operating profit is reconciled to net profit as follows:

	2022 EGP '000	2021 EGP '000
Operating profit	15,361,406	10,525,482
Finance income	414,174	136,838
Finance cost	(3,363,026)	(3,391,597)
Foreign exchange (losses)/gains	(4,466,564)	105,425
Income tax expense	(2,100,781)	(1,820,342)
Net profit	<u>5,845,209</u>	<u>5,555,806</u>

The segment information disclosed in the table above represents the segment information provided to the Chief Operating Decision Maker of the Group.

Management has determined the operating segments based on the information reviewed by the Chief Operating Decision Maker of the Group for the purpose of allocating and assessing resources.

The Group's Chief Executive Officer is the chief operating decision maker and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

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37 Operating segments (continued)

All of the segments' sales are made to external customers. The Group does not sell more than 5% of the total sales to a single customer.

Geographical segments

The assets and liabilities of the Group are geographically located in Egypt. Therefore, detailed disclosures have not been provided. Geographical location-wise disaggregation of revenue of the Group are as follows:

	2022 EGP '000	2021 EGP '000
Within Egypt	68,690,022	47,481,553
Outside Egypt	15,294,211	20,336,963
Total	83,984,233	67,818,516

38 Financial risk management

The Group's activities expose it to a variety of financial risks i.e. credit risk, market risk (including foreign exchange risk, price risk and cash flow interest rate risk) and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group objectives, policies and processes for measuring and managing risks, and the Group management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework. The Group risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Transactions not denominated in Egyptian Pounds	Cash flow forecasting, sensitivity analysis	by dealing with local banks which offer official exchange rates and matching of long and short positions in foreign currencies.
Market risk - interest rate	Long-term borrowing at variable rates	Sensitivity analysis	Investment in treasury bills and bank deposits
Credit risk	Cash and cash equivalents, trade receivables and financial assets at amortized cost	Aging analysis, credit ratings	Diversification of bank deposits, credit limits and governmental treasury bills
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

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38 Financial risk management (continued)

38.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. The Group is exposed to this risk for various financial instruments. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2022	2021
	EGP '000	EGP '000
Trade and other receivables	9,100,177	6,109,991
Treasury bills	566,332	132,261
Bank balances	12,726,080	3,431,362
Total	22,392,589	9,673,614

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk has less of an influence on credit risk.

The Group seeks to limit its credit risk with respect to counter parties by setting various credit limits and monitoring outstanding receivables. Adequate follow up procedures are followed for the recovery of receivables as per the terms of the contracts.

Most of Group's revenue is represented in sales transactions with many customers with close values for each customer. Hence, there is no concentration of credit risk on specific customers.

Impairment of trade receivables, notes receivables, deposits and letters of credit

The Group applies simplified approach available in IFRS 9 for measuring the expected credit losses which uses a lifetime expected loss allowance for all the trade and notes receivables deposits and letters of credit.

To measure the expected credit losses, these financial assets have been grouped based on shared link characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2022 or January 1, 2022, respectively, and the corresponding historical credit losses experiences within this period. The historical loss rates are adjusted to reflect the current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The loss allowance as at December 31, 2022 and December 31, 2021 was determined as follows:

	Total	Neither past due not impaired	Past due but not impaired				
			<30 days	31 - 90 days	91 - 180 days	181 - 360 days	> 360 days
	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000
<i>December 31, 2022</i>							
Expected loss rate	0.45%	0.00%	0.02%	0.02%	1.05%	3.93%	100%
Gross carrying amount	9,100,177	8,601,939	352,022	62,502	17,761	26,756	39,197
Loss allowance	40,559	44	69	12	186	1,051	39,197

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38 Financial risk management (continued)

38.1 Credit risk (continued)

Trade and other receivables (continued)

Impairment of trade receivables, notes receivables, deposits and letters of credit (continued)

	Total EGP '000	Neither past due not impaired EGP '000	Past due but not impaired				
			<30 days EGP '000	31 - 90 days EGP '000	91 - 180 days EGP '000	181 - 360 days EGP '000	> 360 days EGP '000
<i>December 31, 2022</i>							
Expected loss rate	0.66%	0.00%	0.07%	0.01%	0.34%	3.98%	100%
Gross carrying amount	6,109,991	5,745,199	94,249	150,767	54,173	26,406	39,197
Loss allowance	40,559	44	69	12	186	1,051	39,197

Treasury bills

Treasury bills are issued by the government and are considered with a high credit rating.

Cash at banks and short-term bank deposits

Credit risk relating to bank balances and short-term bank deposits arises from the risk that the counterparty becomes insolvent, and accordingly, is unable to return the deposited funds.

To mitigate this risk, wherever possible, the Group conducts transactions and deposits funds with financial institutions with high investment grade and reasonable and acceptable credit ratings.

38.2 Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate.

The Group is exposed to currency risk on transactions denominated in a currency other than the respective functional currencies of the Group, primarily the U.S. Dollars (USD) and Euro. In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices necessary to cover mismatch of currency positions.

As at year end, major financial assets/(liabilities) in foreign currencies were as follows:

	2022			2021
	Assets EGP '000	Liabilities EGP '000	Net EGP '000	Net EGP '000
United States Dollars (USD)	123,792	(984,464)	(860,672)	(338,443)
Euros	4,005	(56,149)	(52,144)	(14,333)

Sensitivity analysis

The following table details the Group's sensitivity to a 30% (2021: 20%) increase and decrease in EGP against the relevant foreign currencies with all other variables held constant. 30% (2021: 20%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates.

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38 Financial risk management (continued)

38.2 Market risk (continued)

Foreign exchange risk (continued)

Sensitivity analysis (continued)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 30% (2021: 20%) change in foreign currency rates. A positive number below indicates an increase in profit or equity where EGP strengthens 30% (2021: 20%) against the relevant currency. For a 30% weakening of EGP against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	Effect on profit and equity	
	2022	2021
	EGP '000	EGP '000
United States Dollars (USD)	258,202	67,689
Euro	15,643	2,867

Other market price risk

Other market price risk is the risk that changes in market prices, such as equity prices, will affect the Group's results or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by short term treasury bills and bank deposits which are renewed with the applicable interest rate at the time of renewal. Borrowings measured at amortised cost with variable rates do not expose the group to fair value interest rate risk.

As at reporting date, the interest rate profile of the Group's financial instruments is as follows:

	2022	2021
	EGP '000	EGP '000
<i>Financial instruments with variable interest rates</i>		
Financial assets - bank deposits	1,103,181	376,219
Financial assets – treasury bills	566,332	132,261
Financial liabilities – borrowings	(32,770,188)	(34,839,592)
Net exposure	(31,100,675)	(34,331,112)

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit and closing equity to a reasonably possible change in interest rates of $\pm 2\%$ (20201: $\pm 2\%$) with all other variables held constant. These changes are considered to be reasonably possible based on observation of current market conditions.

The sensitivity analysis includes only outstanding variable interest-bearing financial assets and liabilities and discloses the period end impact for a 2% change in the variable rate component of interest. Positive figures represent an increase in profit or equity.

	Effect on profit		Effect on equity	
	+2%	-2%	+2%	-2%
	EGP '000	EGP '000	EGP '000	EGP '000
2022	622,013	(622,013)	622,013	(622,013)
2021	686,622	(686,622)	686,622	(686,622)

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38 Financial risk management (continued)

38.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that the sufficient cash on demand to meet expected operational expenses for a suitable period, including the service of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Maturities of financial liabilities

The table below summarizes the maturities of the Group's undiscounted financial liabilities as at December 31, 2022 and December 31, 2021, based on contractual payment dates and current interest rates.

	Within 1 year EGP '000	1 to 5 years EGP '000	More than 5 years EGP '000	Total EGP '000
<i>December 31, 2022</i>				
Borrowings	17,034,756	12,070,673	3,664,759	32,770,188
Trade and other payables	17,058,656	3,121,114	-	20,179,770
Bank overdraft	638,717	-	-	638,717
Lease liabilities	38,704	38,704	-	77,408
	34,770,833	15,230,491	3,664,759	53,666,083
	Within 1 year EGP '000	1 to 5 Years EGP '000	More than 5 years EGP '000	Total EGP '000
<i>December 31, 2021</i>				
Borrowings	22,179,747	12,014,200	645,645	34,839,592
Trade and other payables	7,191,350	3,215,353	-	10,406,703
Bank overdraft	270,398	-	-	270,398
Lease liabilities	38,705	77,408	-	116,113
	29,680,200	15,306,961	645,645	45,632,806

Loan covenants

Under the terms of the major borrowing facilities, the Group is mainly required to comply with the following financial covenants:

- Current ratio should not be less than 1
- Net debt to EBITA should not exceed 3 times of total debt;
- Debt coverage ratio should not be less than 1:1;
- Financial leverage should not exceed the range of 3.0:2.5; and
- The cash operating profit after tax over finance cost ratio should not be less than 1 time of the total payments.

As at December 31, 2022 and 2021, the Group was in compliance with the debt covenants.

38.4 Capital management

The Group's objectives when managing capital is to safeguard their ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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38 Financial risk management (continued)

38.4 Capital management (continued)

The Board of Directors' policy is to maintain a strong capital base so as to maintain the confidence of its investors, creditors and the market and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board also monitors the level of dividends paid to shareholders.

There were no changes in the Group's approach to capital management during the period. The Group is not subject to externally imposed capital requirements. Deficiency of equity is measured at EGP 653 million as at December 31, 2022 (2021: EGP 5,716 million)

39 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or pay the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, the most advantageous market for the asset or the liability.

The Group should be able to have access to the principal market or the most advantageous market. In the absence of principal market, the Group does not need to conduct a thorough search of possible markets to determine the principal or the most advantageous market. However, the Group takes into consideration all information reasonably available.

The below shows the financial assets and liabilities at fair value in the consolidated financial statements as at December 31, 2022 and 2021 within the hierarchy of the fair value, based on the input levels that are considered to be significant to the fair value measurement as a whole:

Level 1 -	Inputs of quoted prices (unadjusted) in active markets for identical assets or liabilities which the Group can have access to at the date of measurement.
Level 2 -	Inputs other than quoted prices included within level I that are observable for the asset or liability, either directly or indirectly.
Level 3 -	Unobservable inputs of the asset or the liability.

The fair values of financial instruments are not materially different from their carrying values. The fair value of financial assets and liabilities are considered at the amount at which the instrument could be exchanged in a current transaction between willing parties.

The following methods and assumptions were used to estimate the fair values:

- Cash and bank balances, treasury bills, trade receivables, other financial assets, amounts due from related parties, trade and other payables and amounts due to related parties approximate their carrying amounts, largely due to the short-term maturities of these instruments.
- For borrowings, fair value is approximately equal to the carrying amount since these bear variable interest rate that approximate the market prevailing rates.
- Fair value of financial assets at FVOCI has been disclosed in Note 10.

40 Subsequent events

The Extraordinary General Assembly of Al Ezz Dekheila Steel Company – Alexandria (EZDK) was held on August 5, 2023, wherein, the shareholders resolved a voluntary delisting of EZDK from the Egyptian Stock Exchange and to acquire the shares of objecting shareholders at EGP 1,250 per share, following the afore-said decision to voluntarily delist.