ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries

Consolidated Annual Financial Statements and Consolidated Management Report for the year ended 12/31/2023

**(Free translation from the original in Spanish.
In the event of discrepancy, the Spanish-language version prevails)**

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ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated balance sheet at December 31, 2023
(Thousand euro)

ASSET	Notes	2023	2022
NON-CURRENT ASSETS		**106,675**	**108,750**
Intangible assets		**43,364**	**48,752**
Consolidation goodwill	6	14,744	22,000
Other intangible assets	7	28,620	26,752
Property, plant and equipment	**8**	**34,914**	**32,542**
Land and buildings		7,586	8,301
Technical facilities and other property, plant and equipment		20,061	20,148
In-progress tangible assets and prepayments		7,267	4,093
Real estate investments		**147**	**149**
Land		147	149
Investments in group companies and associates		**306**	**307**
Shareholdings consolidated using the equity method		306	307
Long-term financial investments	**9**	**1,625**	**2,976**
Equity instruments	9	178	245
Loans to third parties	9 and 11	213	270
Derivatives	9 and 18.2	246	1,347
Other financial assets	9 and 11	988	1,114
Non-current receivables from public administrations	**19**	**1,268**	**1,218**
Deferred tax assets	**19**	**25,051**	**22,806**
CURRENT ASSET		**221,077**	**210,694**
Inventory	**10**	**82,869**	**72,180**
Goods for resale		563	398
Raw and sundry materials		35,289	32,937
Work in progress		16,264	15,975
Finished products		28,620	21,624
By-products, residues and materials recovered		268	286
Prepayments to suppliers		1,865	960
Trade and other receivables		**72,571**	**78,380**
Trade receivables for sales and services rendered	9 and 11	50,260	54,586
Sundry receivables	9 and 11	2,099	1,903
Personnel	9 and 11	58	142
Other receivables from public administrations	19	20,154	21,749
Short-term financial investments		**4,086**	**3,305**
Loans to companies	9 and 11	759	116
Derivatives	9 and 18.2	1,737	1,074
Other financial assets	9 and 11	1,590	2,115
Short-term accruals		**791**	**616**
Cash and cash equivalents	**12**	**60,760**	**56,213**
TOTAL ASSETS		**327,752**	**319,444**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated balance sheet at December 31, 2023
(Thousand euro)

EQUITY AND LIABILITIES	Notes	2023	2022
EQUITY		**73,910**	**69,043**
SHAREHOLDERS' FUNDS		**113,355**	**99,475**
Issued capital	**13.1**	**5,709**	**5,709**
Authorized capital		5,709	5,709
Share premium	**13.2**	**50,180**	**50,180**
Other reserves of the Parent Company	**13.3**	**94,280**	**87,715**
Legal and by-law reserves		1,142	1,142
Other reserves		93,138	86,573
Reserves in consolidated companies	**13.3**	**(48,372)**	**(51,312)**
Parent Company shares	**13.5**	**(505)**	**(503)**
Profit/(loss) for the year attributed to the Parent Company		**12,063**	**7,686**
Consolidated profit and loss		12,837	8,332
Profit and loss attributed to non-controlling shareholders	16	(774)	(646)
MEASUREMENT ADJUSTMENTS		**(47,882)**	**(38,546)**
Exchange differences of consolidated companies	**15.1**	**(49,158)**	**(40,102)**
Hedging transactions	**15.2**	**1,276**	**1,556**
GRANTS, DONATIONS AND BEQUESTS RECEIVED		**1,831**	**1,936**
In consolidated companies		1,831	1,936
NON-CONTROLLING INTERESTS	**16**	**6,606**	**6,178**
NON-CURRENT LIABILITIES		**73,298**	**68,389**
Non-current provisions	**17**	**3,067**	**2,124**
Non-current Social Security obligations		1,458	1,308
Other provisions		1,609	816
Non-current creditors	**18**	**66,875**	**62,329**
Bank borrowings	18.1	39,267	26,138
Financial lease creditors	18.1	76	59
Other financial liabilities	18.2	27,532	36,132
Deferred tax liabilities	**19**	**3,356**	**3,936**
CURRENT LIABILITIES		**180,544**	**182,012**
Current provisions	**17**	**527**	**876**
Current creditors	**18**	**43,676**	**57,530**
Liabilities and other negotiable securities	18.2	13,800	26,000
Bank borrowings	18.1	15,925	12,531
Financial lease creditors	18.1	127	111
Derivatives	15 and 18.2	317	1,138
Other financial liabilities	18.2	13,507	17,750
Trade and other payables		**136,341**	**123,606**
Suppliers	18	81,121	74,937
Sundry payables	18	17,899	18,677
Personnel (accrued wages and salaries)	18	7,217	5,268
Current tax liabilities	19	3,755	2,267
Other payables to Public Administrations	19	11,414	11,197
Customer advances	18	14,935	11,260
TOTAL EQUITY AND LIABILITIES		**327,752**	**319,444**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated income statement for the year ended December 31, 2023
(Thousand euro)

	Notes	2023	2022
CONTINUING OPERATIONS			
Revenues	**20.2**	**401,256**	**345,903**
Sales		372,238	325,957
Rendering services		29,018	19,946
Changes in inventories of finished products and work in progress		**10,265**	**1,194**
Work performed by the entity and capitalized	**7.1 and 8.1**	**6,780**	**5,942**
Supplies	**20.3**	**(227,508)**	**(197,576)**
Consumption of raw materials, goods for resale and others		(205,753)	(178,195)
Subcontracted work		(21,231)	(19,075)
Impairment of goods purchased for resale, raw materials and others		(524)	(306)
Other operating income		**2,036**	**2,901**
Sundry and other income		1,530	2,307
Operating grants released to income during the year		506	594
Personnel costs	**20.4**	**(98,790)**	**(83,511)**
Wages, salaries and similar remuneration		(76,309)	(65,365)
Social security		(22,481)	(18,146)
Other operating expenses		**(54,200)**	**(49,466)**
External services	20.5	(52,607)	(48,386)
Taxes		(1,027)	(856)
Losses, impairment and changes in trade provisions	11	59	(44)
Other operating income expenses		(625)	(180)
Depreciation and amortization	**6, 7 and 8**	**(14,618)**	**(14,667)**
Grants related to non-financial assets and others		**679**	**634**
Impairment and results on disposals of assets		**(404)**	**(25)**
Property losses and impairment losses	7	(232)	-
Results on disposals and other items		(172)	(25)
Result from the loss of control of consolidated shares	**2.4**	**-**	**3,055**
Result from the loss of control of a subsidiary		-	1,497
Income attributable to retained interest		-	1,558
Other gains or losses		**(1,256)**	**(62)**
OPERATING PROFIT/(LOSS)		**24,240**	**14,322**
Financial revenue		**338**	**255**
Marketable securities and other financial instruments		338	255
Financial costs		**(7,386)**	**(5,475)**
From third parties		(7,849)	(4,635)
On adjustments to provisions		(89)	(143)
Net monetary gain or loss		552	(697)
Change in the fair value of financial instruments		**(173)**	**-**
Exchange differences		**(1,082)**	**2,010**
Impairment and gains or losses on disposals of financial instruments		**(678)**	**(327)**
Impairment losses and losses		(678)	(327)
FINANCIAL INCOME/(EXPENSE)		**(8,981)**	**(3,537)**
PROFIT/(LOSS) BEFORE INCOME TAXES		**15,259**	**10,785**
Corporate income tax	**19.2**	(2,422)	**(2,453)**
PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS		**12,837**	**8,332**
PROFIT/(LOSS) FOR THE YEAR		**12,837**	**8,332**
Profit/(loss) attributed to the Parent Company		**12,063**	**7,686**
Profit/(loss) attributable to non-controlling interests	**16**	**774**	**646**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in equity for the year ended December 31, 2023
(Thousand euro)

A) Statement of recognized income and expense for the year ended December 31, 2023

	Notes	2023	2022
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**12,837**	**8,332**
INCOME AND EXPENSE RECOGNIZED DIRECTLY TO CONSOLIDATED EQUITY			
Exchange differences	15.1	(9,056)	385
On cash flow hedges	15.2	(425)	2,265
Grants, donations and bequests received		547	775
Tax effect		9	(755)
Non-controlling shareholders, net of taxes	16	(346)	(209)
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY TO CONSOLIDATED EQUITY		**(9,271)**	**2,461**
TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT			
Grants, donations and bequests received		(679)	(634)
Tax effect		163	152
TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT		**(516)**	**(482)**
TOTAL CONSOLIDATED RECOGNIZED INCOME AND EXPENSES		**3,050**	**10,311**
Attributed to the Parent Company		**2,622**	**9,845**
Profit/(loss) attributable to non-controlling interests		**428**	**466**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in equity for the year ended December 31, 2023
(Thousand euro)

B) Statement of total changes in consolidated equity for the year ended December 31, 2023

	Authorized capital (Note 13.1)	Share premium (Note 13.2)	Other reserves of the Parent Company (Note 13.3)	Reserves in consolidated companies (Note 13.3)	Treasury stock and equity interests (Note 13.5)	Profit/(loss) for the year attributed to the Parent Company	Exchange differences among consolidated companies (Note 15.1)	Operations of transactions (Note 15.2)	Grants, donations and bequests received	Non-controlling interests (Note 16)	TOTAL
CLOSING BALANCE 2021	**5,709**	**50,180**	**90,499**	**(62,985)**	**(375)**	**8,543**	**(40,487)**	**(111)**	**1,829**	**5,712**	**58,514**
Total consolidated recognized income and expenses	-	-	-	-	-	7,686	385	1,667	107	466	10,311
Transactions with partners or owners											
Dividends (Note 13.4)	-	-	(2,563)	-	-	-	-	-	-	-	(2,563)
Transactions with own shares or interests (net) (Note 13.5)	-	-	-	-	(128)	-	-	-	-	-	(128)
Other changes in consolidated equity											
Applied consolidated profit/(loss) for 2021	-	-	(3,629)	12,172	-	(8,543)	-	-	-	-	-
Impact of hyperinflation in Argentina (Note 2.5)	-	-	-	1,175	-	-	-	-	-	-	1,175
Impact of hyperinflation in Turkey (Note 2.5)	-	-	-	2,656	-	-	-	-	-	-	2,656
Other transactions	-	-	3,408	(4,330)	-	-	-	-	-	-	(922)
CLOSING BALANCE 2022	**5,709**	**50,180**	**87,715**	**(51,312)**	**(503)**	**7,686**	**(40,102)**	**1,556**	**1,936**	**6,178**	**69,043**
Total consolidated recognized income and expenses	-	-	-	-	-	12,063	(9,056)	(280)	(105)	428	3,050
Transactions with partners or owners											
Dividends (Note 13.4)	-	-	(2,306)	-	-	-	-	-	-	-	(2,306)
Transactions with own shares or interests (net) (Note 13.5)	-	-	-	(42)	(2)	-	-	-	-	-	(44)
Other changes in consolidated equity											
Applied consolidated profit/(loss) for 2022	-	-	(3,118)	10,804	-	(7,686)	-	-	-	-	-
Impact of hyperinflation in Argentina (Note 2.5)	-	-	-	1,106	-	-	-	-	-	-	1,106
Impact of hyperinflation in Turkey (Note 2.5)	-		-	2,762	-	-	-	-	-	-	2,762
Other transactions	-	-	11,989	(11,690)	-	-	-	-	-	-	299
CLOSING BALANCE 2023	**5,709**	**50,180**	**94,280**	**(48,372)**	**(505)**	**12,063**	**(49,158)**	**1,276**	**1,831**	**6,606**	**73,910**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated cash flows statement for the year ended December 31, 2023
(Thousand euro)

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for year from continuing operations before income taxes		**15,259**	**10,785**
Adjustments to results		**27,289**	**17,918**
Depreciation and amortization	6, 7 and 8	14,618	14,667
Impairment adjustments		2,342	1,484
Variation in provisions		594	(306)
Grant allocations		(679)	(634)
Profit/(loss) on write-off and disposal of assets		404	25
Profit/(loss) on write-off and disposal of financial assets		-	-
Results of the loss of control in consolidated investments	2.4	-	(3,055)
Financial revenue		(338)	(255)
Financial costs		7,938	4,778
Change in the fair value of financial instruments		173	-
Net monetary gain or loss (*)		(552)	697
Other income/expenses		2,789	517
Changes in working capital		**(671)**	**294**
Inventory		(12,456)	(10,366)
Debtors and other receivables		5,165	(17,778)
Other current assets		(175)	113
Creditors and other payables		13,925	27,014
Other current liabilities		-	-
Effect of exchange differences on the working capital of foreign companies		(7,130)	1,311
Other non-current assets and liabilities		-	-
Other cash flows from operating activities		**(10,507)**	**(7,271)**
Interest paid		(7,849)	(4,635)
Interest received		338	255
Income tax receipts (payments)		(2,996)	(2,891)
CASH FLOWS FROM OPERATING ACTIVITIES		**31,370**	**21,726**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(16,065)**	**(20,791)**
Intangible assets	7	(8,510)	(6,904)
Property, plant and equipment	8	(7,593)	(7,077)
Other financial assets		6,593	(1,462)
Acquisition of group companies, associates and jointly controlled entities	2.4	(6,555)	(5,348)
Divestment proceeds		**(5,810)**	**3,610**
Group companies and associates		12	2
Property, plant and equipment		201	13
Other financial assets		(6,023)	3,595
CASH FLOWS FROM INVESTING ACTIVITIES		**(21,875)**	**(17,181)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments		**(2,195)**	**(2,440)**
Acquisition of equity instruments	13.5	(2)	(128)
Issue of equity instruments	13.1	-	-
Paid dividends	13.4	(2,306)	(2,563)
Grants, donations and bequests received		113	251
Proceeds from and payments on financial liability instruments		**(2,753)**	**(4,601)**
Issuance			
Liabilities and other negotiable securities	18	63,000	83,300
Bank borrowings	18	29,054	12,531
Other payables	18	13,951	17,661
Repayment and redemption of			
Liabilities and other negotiable securities	18	(75,200)	(84,800)
Bank borrowings	18	(12,531)	(26,648)
Other payables	18	(21,027)	(6,645)
CASH FLOWS FROM FINANCING ACTIVITIES		**(4,948)**	**(7,041)**
NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS		**4,547**	**(2,496)**
Cash and cash equivalents at beginning of the year	**12**	**56,213**	**58,709**
Cash and cash equivalents at year end	**12**	**60,760**	**56,213**

(*) Excluding the effect of hyperinflation on financial expenses

1. GROUP ACTIVITIES

Arteche Lantegi Elkartea, S.A., the parent company, was constituted on 2 July 1997 through the spin-off of Ziskua 92, S.L., which took effect on 1 January 1997. Its registered address for corporate and tax purposes is located at Derio Bidea 28, in Mungia (Bizkaia).

Its corporate purpose consists of acquiring, holding and the enjoyment of all types of listed and unlisted securities and the rendering of technical, economic and financial advisory services.

All the activities which make up its corporate purpose may be carried on in Spain or abroad, and may be carried on either directly (totally or partially) by Arteche Lantegi Elkartea, S.A. through the ownership of shares or other equity investments in companies with an identical or a similar company purpose.

In addition to its direct business, Arteche Lantegi Elkartea, S.A. is the parent of a group of independent entities engaged in a variety of activities, all of which form the Arteche Group together with the parent (hereinafter the “Arteche Group” or the “Group”). Therefore, in addition to its own individual annual accounts, the Company is required to draft consolidated annual accounts for the Group, including its interests in associates. Unless it fully meets the conditions, the Arteche Group shall not conduct any business activity for which the applicable legislation stipulates specific conditions or limitations.

Arteche Group currently operates as a manufacturing group and principal supplier of cutting-edge products, facilities and services in the energy industry.

As of December 31, 2023 and 2022, the Arteche Group activity is structured into the following business units:

- “Measurement & Monitoring Systems” groups together the commercialization of transformers of up to 800 kV, Digital measurement, and Sensors;
- "Network reliability" encompasses energy and recloser quality
- “Transmission & Distribution Grid automation” or automation of transmission and distribution networks groups together the manufacture and commercialization of relays, relays for the railway industry, automation of networks and electric systems.

Since June 11, 2021, the Parent Company's shares have been admitted for trading on the BME Growth trading segment of BME MTF Equity (multilateral trading system).

1.1 Armed conflict

The Ukraine-Russia conflict that began in February 2022 poses a risk of global market uncertainty due to the possible embargoes or sanctions that companies may endure in those markets, or due to counter-sanctions imposed by Russia. This circumstance has triggered a significant reduction in trade operations with Russia, generating an increase in the prices of certain raw materials, exacerbated inflationary pressures, bottlenecks in the supply chain and volatility in the financial and raw materials markets.

As of December 31, 2023 and 2022, the Group has no assets in either Russia or Ukraine, and the direct effect on the Group's revenue is immaterial, since the volume of sales and orders to customers located in those countries which are directly affected is not significant.

The indirect impacts derived from this conflict and endured by the Arteche Group were evident in 2022, affecting the supply chain as well as in prices of energy and raw materials, such as copper. These circumstances have ameliorated significantly in 2023 and 2024, when raw material prices have been substantially lower than in 2022. Although the Group's production processes are not electricity-intensive, in 2022, we renegotiated the contracts with electrical companies for the Europe plants. In the case of commodities such as copper, in addition to the supplier and market diversification measures monitored by the purchasing area, the Group contracted financial derivatives (commodity swaps) to hedge its volatility from February through December 2023.

The current escalation of the war in the Gaza Strip has not had a significant direct impact on results, as the Group has no productive assets or relevant business volume in Israel or Palestine.

However, instability in the Red Sea area has generated worldwide increases of up to 400% in shipping costs from Asia to Europe and of 100% from Asia to the United States, stoking concerns about inflation in the aftermath of the pandemic.

The Arteche Group is suffering the negative effect on the cost of freight, delivery times of goods, and insurance for the maritime routes to or through this area, where some of the Group's markets are located. The impacts of these conflicts on transportation costs and mobility of goods are managed by the purchasing area as part of the risks inherent to export activity, and it is done so by joining purchasing centers, changing routes or bringing supply sources closer together, with no significant direct impacts expected.

Additionally, the increase in inflation and interest rates during 2022 and 2023 which is a result of these geopolitical risks and which has remained constant during the year has been considered in the discount rates applied and the sensitivity analyses performed on the non-financial assets recoverability tests, including goodwill (Notes 6 and 7).

1.2 Climate change

Through its Sustainability Policy and in accordance with the provisions of the 2030 United Nations Global Compact for Sustainable Development, the Arteche Group is committed to developing actions in relation to climate change mitigation and adaptation, promoting measures that contribute to environmental sustainability.

The Arteche Group's commitment to the environment continues to grow in 2023, with the following basic principles in relation to the environment:

(Thousand euro)

- Taking action to prevent climate change
- Carbon footprint neutrality
- Energy efficiency and use of renewable energy
- Circular economy, reusing and recycling generated waste
- Minimizing waste and pollution
- Eco-design of our products and packaging
- Preventing any type of environmental incident
- Preserving natural resources
- Conducting research and development projects that promote environmental protection.

Through its 2030 Sustainability Strategic Plan, the Arteche Group has defined short and long-term emission reduction goals, with the 2021 carbon footprint calculations as a reference:

Climate change goals	**2026**	**2030**
Reduction of Scope 1 and 2 emissions	40%	50%
Reduction of Scope 3 emissions	26%	50%
Renewable energy consumption	60%	100%

In 2022 Arteche formalized the commitment to adopt targets aligned with SBTI (Science Based Targets Initiative) for 2030 and 2050, an international initiative for alignment in the fight against climate change and the Paris Agreement, so that its activity contributes to limiting global warming to 1.5 degrees and achieving climate neutrality. In addition, a project has been initiated to develop a Scope 3 emissions decarbonization plan.

Since 2022, and with the goal of responding to the development of risk-mitigating actions and seizing climate change opportunities, we have been working on specifying our Risk Management System to the emerging climate change risks. To this end, Arteche has based his work on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as well as on the European Taxonomy of Sustainable Activity. The project began in 2022 by assessing the physical risks (acute and chronic) at each location. With regard to transition risks, in 2023 progress was made by including the most relevant risks in the periodic risk management model assessment, particularly with regard to regulatory and market risks, as well as by assessing the impacts, risks and opportunities in the context of the double materiality analysis. In 2024, the project continues to develop the quantification of these risks' financial impact in accordance with the European Corporate Sustainability Reporting Directive (CSRD) that will be applicable to the Arteche Group as of January 1, 2025.

This new methodology is part of the Arteche Group's Risk Management System, which is based on the General Risk Control and Management Policy as approved by the Board of Directors, and it is consolidated in the internal risk management procedures.

The new Compliance and Sustainability functional area along with the corporate EHS (Environment, Health and Security) area are responsible for establishing guidelines and coordinating actions for the production plants, gradually integrating environmental criteria into the management of all processes, in an attempt to reduce the impact that the Group's operations may have on the environment.

In addition, the following activities were carried out during 2023:

- Environmental performance measurement by CDP (Carbon Disclosure Project). The performance rating has been maintained, which is in line with company averages in our sector and with the global average (C)

- Independent verification of Scope 1 and 2 emissions

- Project to develop a Scope 3 emissions decarbonization plan.

At December 31, 2023 and 2022, the Group's manufacturing facilities were not located in geographical zones or areas where an imminent climate risk was foreseen, which should be considered in the recoverability estimations for non-financial assets, including goodwill. In this regard, in the hypotheses used in the asset impairment analysis described in Note 6, the Group has considered macroeconomic variables that implicitly take into account the impacts that climate change may have in each of the geographical locations where it operates.

Further references to climate change are included within the section on TCFD and EU Taxonomy of the Statement of Non-Financial Information - 2023 Sustainability Report, an integral part of the consolidated Management Report.

2. SUBSIDIARIES AND ASSOCIATES

2.1 Subsidiaries

The full consolidation method was applied to all companies over which the Group has or may have direct or indirect control, which is understood to be the authority to control a business' financial and operating policies with the purpose of profiting from its activities. When assessing whether the Group controls a company, the existence and effects of potential voting rights which may be currently exercised or converted are taken into account. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The interest held by non-controlling shareholders in the equity and the profit of consolidated subsidiaries is presented in the heading "Non-controlling interests" under "Equity" in the consolidated balance sheets and in "Profit attributed to non-controlling interests" in the consolidated income statement, respectively.

The Appendix lists the subsidiaries included within the scope of consolidation.

2.2 Associates

Associates are recognized using the equity consolidation method (Note 4.2.2). Those companies are those over which significant influence is held. Significant influence is understood to exist when the Group has a shareholding in the company and intervenes in its financial and operating decisions without exercising control.

The equity method of consolidation consists of including in the consolidated balance sheet heading "Non-current investments in Associates-Equity consolidated interests" the value of the net assets and any goodwill that may exist with respect to the interest held in the associate. The net profit/(loss) obtained each year through these companies is reflected in the consolidated income statement under "Shares in profit/loss of companies carried under the equity method".

A list of the associates included within the scope of consolidation is set out in the Appendix.

2.3 Jointly-controlled companies

Jointly-controlled companies are those that constitute a joint venture. A joint venture is one over which joint control is held with other participants that arises when there is a business or contractual agreement under which the strategic business decisions of a financial and operating nature require the unanimous consent of the parties that are sharing control.

A list of the jointly-controlled companies included within the scope of consolidation is set out in the Appendix.

2.4 Changes in consolidation scope

The main movements in 2023 and 2022 are as follows:

<u>2023</u>

On January 1, 2023, the Group began to fully consolidate the companies Arteche Middle East JLT and Arteche Smart Grid India, Private Limited, which until then had been excluded from the scope of consolidation due to their size. The impact of their incorporation has not been significant.

In addition, in 2023 the Group incorporated the company Arteche UK, Ltd.

<u>2022</u>

Arteche Hitachi Energy Instrument Transformers, S.L.:

On May 2, 2022, the Group company Arteche Instrument Transformers, S.L. sold 26,460 shares of Arteche Hitachi Energy Instrument Transformers, S.L. (previously known as Arteche Gas Insulated Transformers, S.L.U.) for 3,754 thousand euro to Hitachi Energy Ltd. These shares represented 49% of this company's capital stock, thus rendering it a jointly controlled company. This transaction resulted in 1,497 thousand euro's worth of profit, which was recorded under the heading "Result from loss of control of consolidated shares - Result from loss of control of a subsidiary" in the 2022 consolidated income statement.

(Thousand euro)

The detail of net assets sold at value at the sale dale was as follows:

Thousand euro	Arteche Hitachi Energy Instrument Transformers, S.L.
NON-CURRENT ASSETS	**1,010**
Intangible assets	360
Property, plant and equipment	176
Long-term financial investments	11
Deferred tax assets	463
CURRENT ASSET	**2,388**
Inventory	1,379
Trade and other receivables	850
Cash and cash equivalents	159
TOTAL ASSETS	**3,398**

Thousand euro	Arteche Hitachi Energy Instrument Transformers, S.L.
GRANTS, DONATIONS AND BEQUESTS RECEIVED	**20**
NON-CURRENT LIABILITIES	**7**
Deferred tax liabilities	7
CURRENT LIABILITIES	**1,114**
Trade and other payables	1,114
SHAREHOLDERS' FUNDS	**2,257**
SELLING PRICE	**3,754**
RESULTING PROFIT	**1,497**

Likewise, as a result of this transaction, the Group documented the percentage of ownership it retains at fair value (51%), recording an income amounting to 1,558 thousand euro under the heading "Result from Loss of Control of Consolidated Investments - Profit attributable to retained interest" in the 2022 consolidated income statement and an intangible asset for the same amount, together with the related deferred tax liability amounting to 374 thousand euro.

The net amount of the revenue and the loss contributed by the 49% sold of the aforementioned company, from January 1, 2022 to the date of the transaction, amounted to 1,185 thousand euro. As of May 2, 2022, the Arteche Group consolidates this company by means of the proportional integration method.

Other companies

In addition, on May 31, 2022, the Group incorporated Arteche Germany GmbH with an initial share capital of 25 thousand euro.

2.5 Impact of Classifying Argentina and Turkey as Hyper-inflationary Countries

As a consequence of Argentina and Turkey being considered hyper-inflationary countries since July 2018 and April 2022 respectively, the Group annually reviews their policy of presenting the equity effects of the hyper-inflationary situation currently affecting the Argentine and Turkish economies and that of its subsidiary based in Argentina (AIT, S.A.) as well as of the Turkish subsidiary, Esitaş Elektrik Sanayi ve Ticaret A.Ş.

Hyper-inflationary regulations entail:

- Adjusting the historical cost of non-monetary assets and liabilities, as well as for the different equity items, from acquisition/incorporation date until year end to reflect changes in the purchasing power of the currencies affected by hyper-inflation.

- Recording the impact of annual hyper-inflation on net monetary position in the profit and loss account.

- Adjusting the different income statement and effective cash flow statement items for inflation at the start of its generation, with a balancing entry under financial results and another under effective cash flow statement, respectively.

- Converting the components of the financial statements of AIT, S.A. and Esitaş Elektrik Sanayi ve Ticaret A.Ş at the closing exchange rate.

Argentina

During 2023, the impact on the equity of the company based in Argentina arising from the conversion into constant currency due to hyperinflation (IAS 29) and from the conversion to the euro (IAS 21) amounted to 1,106 thousand euro in 2023 (1,175 thousand euro in 2022), which have been effectively recorded under the heading "Reserves in Consolidated Companies." The impact on the consolidated income statement is not significant.

The cumulative inflation for fiscal year 2023 estimated by the National Institute of Statistics and the Census of Argentina was of 211.4% (94.8% in 2022) and the exchange rate used as of December 31, 2023 was 893.34 pesos per euro (188.96 pesos per euro in 2022).

Turkey

The combined result derived from the application of the aforementioned criteria amounted to a loss of 2,137 thousand euro in 2023 (1,364 thousand euro in 2022).

During 2023, the impact on the Turkish company's equity resulting from the conversion into constant currency due to hyperinflation (IAS 29) and the conversion to the euro (IAS 21) amounted to a positive 625 thousand euro figure (1,292 thousand euro in 2022), of which a positive 2,762 thousand euro figure has been effectively recorded under the heading "Reserves in Consolidated Companies" (2,656 thousand euro in 2022).

The cumulative inflation for fiscal year 2023 estimated by the Turkish Statistical Institute (Turkstat) was 64.8% (64.3% in 2022) and the exchange rate used as of December 31, 2023 was 32.53 Turkish lira per euro (19.94 Turkish lira per euro in 2022).

3. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND RECOGNITION AND MEASUREMENT STANDARDS

3.1 Fair presentation

The consolidated annual accounts for 2023 have been prepared on the basis of the accounting records of Arteche Lantegi Elkartea, S.A. and subsidiaries and include all adjustments and reclassifications required for consistency in terms of timing and measurement with the Group's accounting policies.

These consolidated annual accounts are presented in accordance with applicable commercial legislation as established by the Commercial Code, amended by Law 16/2007 of July 4, which reforms and adapts accounting legislation for international harmonization based on European Union legislation, Royal Decree 1514/2007 of November 20—which approves the General Accounting Plan which, since its publication, has been subject to several modifications, the most recent one being Royal Decree 1/2021, of January 12—and Royal Decree 1159/2010 of September 17, which approves the rules for preparing consolidated annual accounts and subsequent amendments in all areas not opposed by the provisions of the aforementioned reform law, in order to present a true and fair view of the Group's financial situation and results, as well as a reliable presentation of cash flows reflected in the consolidated cash flow statement.

These consolidated annual accounts were prepared by the Board of Directors of Arteche Lantegi Elkartea, S.A. on March 18, 2024, together with those relating to investee companies, and will be submitted for approval by the relevant shareholders. The directors believe that such approval will be obtained without any modification being made.

The 2022 consolidated annual accounts for the Group were approved by the shareholders at the Annual General Meeting of Arteche Lantegi Elkartea, S.A. held on 5 May, 2023, and were filed at the Vizcaya Mercantile Registry.

3.2 Comparative information

In accordance with Spanish mercantile law, for comparative purposes, for each of the headings included in the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity, and the consolidated cash flow statement, in addition to the figures for 2023, those corresponding to the prior year are likewise presented. Quantitative information for the previous year is also included in the notes to the consolidated financial statements unless an accounting standard specifically states that this is not required.

3.3 Basis of consolidation

The subsidiaries over which Arteche Lantegi Elkartea, S.A. exercises control were fully consolidated. The Arteche Group considers that it has the capacity to exercise control over a subsidiary when it has sufficient power to govern its financial and operating policies so as to benefit from its activities. Such control is presumed to exist when Arteche Lantegi Elkartea, S.A., or one if its subsidiaries, or both together, directly or indirectly owns, more than 50% of the voting rights at the investee companies.

Jointly managed companies are consolidated using the proportional consolidation method. Interests in associates have been consolidated using the equity method.

The companies that are immaterial to a true and fair view of the Group are not consolidated. During 2023, all subsidiaries and associates were included in the consolidated financial statements. During 2022, all subsidiaries and associates were included in the consolidated financial statements, except for the subsidiaries Arteche Middle East JLT and Arteche Smart Grid India, Private Limited. (Note 2.4).

Basque Electrical Laboratories Alliance AIE, excluded from the consolidated financial statements for 2021, was liquidated in April 2022.

The financial statements for subsidiaries and associates are closed on December 31.

3.4 Grouping of items

For the purposes of facilitating the understanding of the consolidated balance sheet, income statement, statement of changes in equity and cash flow statement, these financial statements are presented in a group format and all necessary analysis is set out in the notes to the financial statements.

3.5 Key aspects of the measurement and estimation of uncertainty

The preparation of annual accounts requires the Group to use certain estimates and judgments relating to the future that are evaluated on a continuous basis and are supported by past experience and other factors, including expectations of future successes that are deemed to be reasonable given the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of the value of non-current assets

The measurement of non-current assets, other than financial assets, requires the application of estimates in order to determine their fair value, for the purposes of evaluating any possible impairment. In order to determine this fair value, the parent company's Directors estimate expected future cash flows from assets or cash generating units of which they form part and use appropriate discount rates to calculate the present value of those cash flows.

Estimated impairment of goodwill

The Group annually verifies whether there is an impairment loss in respect of goodwill, in accordance with the accounting policy described in Note 4.3.1. The amounts recoverable from cash generating units (CGUs) have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 6).

Deferred tax assets

Deferred tax assets are recorded for all deductible temporary differences, tax loss carryforwards yet to be offset and deductions pending application, for which it is likely that the Group companies will obtain taxable profits in the future against which these assets may be applied. The parent company's Directors must make estimates to determine the amount of deferred tax assets that may be recognized, taking into account the amounts and the dates at which the future tax benefits will be obtained and the period over which the attributable temporary tax differences will reverse.

Recognition of income based on stage of completion

The Group applies the stage of completion policy so as to recognize the income of the contracts of automation systems business that meet the requirements for such recognition (Note 4.23). This requires a reliable estimate to be made for the revenue from each contract and for the total contract costs, as well as for the percentage of completion of each facility at the year-end, from both a technical and economic standpoint.

Provisions and contingent liabilities

The Group takes provisions for contingencies into consideration, in accordance with the accounting policy indicated in Note 4.19 of the consolidated financial statements. The Group has prepared judgments and estimates relating to the likelihood those risks will materialize, as well as to their amount, and it has recognized a provision when the risk is considered to be likely by estimating the cost of the liability.

Corporate income tax

The Group is subject to profit taxes in numerous jurisdictions. A significant level of judgment is required to determine the corporate income tax provision worldwide. There are many transactions and calculations with respect to which the ultimate calculation of the tax is uncertain in the ordinary course of business. The Group recognizes liabilities for potential tax claims based on an estimate of whether additional tax will have to be paid. When the final tax result differs from the amounts which were initially recognized, such differences will have an effect on profit tax and the provisions for deferred taxes in the year in which they are deemed to arise.

Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not traded on an active market is calculated using valuation techniques. The Group uses judgments to select a variety of methods and to develop assumptions that are primarily based on the market conditions existing at each balance sheet date. The Parent Company has used discounted cash flow analyses for several financial assets at fair value through equity and hedging derivatives that are not traded in active markets.

Impairment of trade receivables

Value adjustment due to client insolvencies involves the review of individual balances based on client credit quality, current market trends, and historical analysis of debt as a whole by Group Management.

4. ACCOUNTING POLICIES

4.1 Subsidiaries

4.1.1. Acquisition of control

The acquisition by the parent company (or other Group company) of control over a subsidiary constitutes a business combination that is recognized using the acquisition method. This method requires the acquiring company to record, at the acquisition date, the identifiable assets acquired and the liabilities assumed in a business combination and any goodwill or negative difference. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition cost is calculated as the sum of the fair values at the acquisition date of the delivered assets, liabilities incurred or assumed and the equity instruments issued by the buyer and the fair value of any contingent compensation that depends on future events or compliance with certain conditions, which must be recognized as an asset, liability or equity, depending on their nature.

Expenses related to the issue of the equity instruments or financial liabilities delivered do not form part of the cost of the business combination and are recognized in accordance with the rules applicable to financial instruments (Note 4.12). The fees paid to legal advisors or other professionals involved in the business combination are recognized as an expense when incurred. The combination costs also exclude the expenses generated internally and any that are incurred by the target company.

At the acquisition date, goodwill is recognized as the amount of the business combination cost that exceeds the proportional share of the value of the identifiable assets acquired minus the liabilities assumed representing the shareholding in the target company's capital. In the exceptional case that this amount is higher than the cost of the business combination, the excess will be recorded as revenue in the income statement.

4.1.2. Consolidation method

The assets, liabilities, revenues, expenses, cash flows and other items in the annual accounts for group companies are included in the Group's consolidated accounts using the full consolidation method. This method requires the following:

1. Consistency in terms of timing. The consolidation of the annual accounts takes place at the same date and for the same period as the annual accounts of the companies required to consolidate. Companies that have a different closing date are included using interim accounts prepared at the same date and for the same period as the consolidated accounts.
2. Consistency in terms of measurement. Assets and liabilities, income and expenses and other items of the Group companies' annual accounts are measured on a consistent basis. Those assets or liabilities, or those revenue or expense items that have been measured using criteria that are not consistent with respect to those applied to the consolidation have been re-measured and all necessary adjustments have been made solely for the purposes of consolidation.
3. Aggregation. The different headings in the individual annual accounts previously made uniform are aggregated according to their nature.
4. Elimination of investment-equity. The carrying amounts representing subsidiaries' equity instruments held directly or indirectly by the parent company are offset by the proportional part of the equity headings recorded by the subsidiary concerned that is attributable to the shares, generally based on the values resulting from the application of the aforementioned acquisition method. In consolidations subsequent to the year in which control is obtained, the excess or shortfall in equity generated by the subsidiary since the acquisition date that is attributable to the parent company is presented in the consolidated balance sheet under reserves or adjustments due to changes in value, based on their nature. The portion attributable to non-controlling shareholders is recorded under "Non-controlling interests."
5. Non-controlling interests. Non-controlling interests are measured on the basis of the effective interest held in the equity of the subsidiary following the above adjustments. Consolidation goodwill is not attributed to non-controlling interests. The excess between the losses attributable to non-controlling interests of a subsidiary and the equity that proportionally relates to them is attributed to them, even if this gives rise to a receivable under that heading.
6. Eliminations of intra-group items. Payables and receivables, income and expenses, and cash flows between Group companies are completely eliminated. All of the results deriving from

internal transactions are also eliminated and deferred until the amounts are realized with respect to third parties outside the Group.

4.1.3. Loss of control

When control over a subsidiary ceases, the following rules are applied:

a) The profit or loss recognized in the individual annual accounts is adjusted for consolidation purposes.

b) If the subsidiary is reclassified as a jointly-controlled company or as an associate, the equity method is initially applied, taking into account the fair value of the shareholding retained at that date for the purposes of initial measurement.

c) The interest in the equity of the subsidiary that is retained after the loss of control and which does not fall within the scope of consolidation will be measured in accordance with the criteria applicable to the financial assets (Note 4.10), initially estimating its value as the fair value at the date the interest is excluded from consolidation.

d) An adjustment is made to the consolidated income statement to record the interest of non-controlling shareholders in the income and expenses generated by the subsidiary during the year up until the loss of control, and income and expenses recorded directly under equity are transferred to the profit and loss account.

4.2 Joint ventures and associates

4.2.1. Proportional consolidation method

Jointly-controlled companies are included in the consolidated accounts by applying the proportional consolidation method.

The application of the proportional consolidation method consists of including in the consolidated annual accounts the portion of the jointly-controlled company's assets, liabilities, expenses, income, cash flows and other items which relates to the percentage stake in equity held by the Group, notwithstanding any prior consistency adjustments or any other adjustments or eliminations that are deemed necessary.

The application of the proportional consolidation method is carried out in accordance with the same rules as those described in the preceding section for the full consolidation method, particularly with respect to the application of the acquisition method, the calculation of goodwill and the negative difference on consolidation, although taking the following into account:

- The aggregation of items is done in the proportion represented by the stake held by the group companies in the equity of the jointly-controlled company.

- Payables and receivables, income and expenses, cash flows and profit or loss on transactions with jointly-controlled companies are eliminated in the proportion of the group companies' equity interest in the jointly-controlled company
- No item is recorded with respect to outside shareholders of the jointly-controlled companies.

4.2.2. Equity consolidation method

Associates are included in the consolidated accounts by applying the equity consolidation method.

When the equity method is first applied, the Company's interest is measured at the amount of equity that the percentage investment represents, after any adjustment of net assets to fair value at the date the significant influence was acquired.

The difference between the carrying amount of the shareholding in the individual accounts and the amount mentioned in the preceding paragraph constitutes goodwill, which is recognized under the heading “Equity consolidated shareholdings.” In the exceptional case in which the difference between the amount at which the investment is recognized in the individual accounts and the proportional part of the fair value of the Company's net assets is negative, that difference is recorded in the income statement after having again evaluated the assignment of fair value to the associate's assets and liabilities.

In general, except in the case in which a negative difference arises on the acquisition of significant influence, the investment is initially measured at cost.

The results generated by equity consolidated companies are recognized as from the date the significant influence was acquired.

The carrying amount of the shareholding is adjusted (increased or decreased), in the proportion that is appropriate for the Group companies, by the amount of change in the investee company's equity, after having eliminated the unrealized results generated on transactions between that company and Group companies.

Changes in the value of the shareholding relating to other changes in equity are shown in the relevant equity heading in accordance with its nature.

Value and timing consistency is applied to investments in associates in the same way as for subsidiaries.

4.3 Intangible assets

4.3.1. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess cost of the business combination at the acquisition date that exceeds the proportional part of the fair value of the identifiable assets acquired less the liabilities assumed representing the shareholding in the target company's capital.

Goodwill is assigned, on the date of acquisition, to each of the Group's cash generating units (CGUs) or the cash generating units expected to receive the benefits of the synergies deriving from the business combination on which the goodwill arises.

At the date of initial recognition, goodwill is measured in accordance with the policy described under Note 4.1.1 and 4.7. After initial recognition goodwill is recorded at cost, less accumulated amortization and recognized accumulated impairment. Useful life is determined separately for each of the CGUs to which the goodwill has been assigned and the estimation is that it is 10 years (in the absence of evidence to the contrary). An annual analysis is performed to determine whether or not there are any indications of the impairment of the cash generating units to which the goodwill has been assigned and, if there are, any possible impairment is verified.

Impairment losses recognized in goodwill are not reversed in subsequent years.

4.3.2. Research and development

Research expenditure is recognized as an expense when incurred. Development costs incurred in projects are recognized as intangible assets when the project is likely to be a success due to it being technologically and commercially feasible, there being sufficient technical and financial resources to complete it and as long as the costs incurred can be reliably measured and profit is likely to be generated.

Development expenses relate to the purchase of materials and external consultants, as well as internal costs calculated based on the hourly cost of the personnel engaging in project development. These items are recognized by crediting the account “Work performed on the Company's own assets” in the consolidated income statement. These expenses are capitalized when the following conditions are met:

- There is a specific and individual project that allows the payments attributable to the performance of the project to be reliably measured.
- The assignment, attribution and temporary distribution of the cost for each project are clearly established.
- There are clear indications of the technical success of the project, regardless of whether the company intends to directly exploit the development or to sell the results of the project to a third-party once it has ended, if there is a market.
- The financial-commercial yield obtained from the project is reasonably assured.
- The financing of the project to completion is reasonably assured. Adequate technical or other types of resources must also be available to complete development and to use the intangible asset.
- The intention exists to complete the intangible asset.

Other development expenses are recognized as an expense when they are incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs that have a finite useful life are amortized on a straight line basis over the estimated useful life of each project, up to a maximum of 5 years.
If an asset’s carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount (Note 4.8).

If the circumstances which permitted the capitalization of the development expenses change, the unamortized portion is expensed in the year the circumstances change.

The amortization of development expenditure begins when the projects are in the condition necessary for them to be capable of operating in the manner initially intended by the Company. The expenditure is amortized on a straight-line basis over the estimated period that the new product will generate economic benefits, up to a maximum of 5 years.

Whenever there are reasonable doubts as to the technical success or economic and commercial profitability of capitalized projects, the amounts recorded as assets are taken directly to losses for the year.

4.3.3. Concessions

The amounts included in the account “Concessions” are recognized at acquisition cost and essentially refer to the right to use the land on which the industrial plant in China was built, and for which a 50-year use concession was obtained. These costs are amortized on a straight-line basis over the fifty years they are expected to generate profits.

4.3.4 Licenses

Intellectual property right use licenses are measured at acquisition cost, which is the initial fixed amount payable at the time the technology transfer agreement was signed and amortization is calculated on a straight-line basis over 5 years. They are considered to have a definite useful life given that variable payments must be made on an annual basis for the use of the technology in accordance with sales made.

4.3.5 Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring in to use the specific software. These costs are amortized over the assets’ estimated useful lives (5 years).

Costs associated with maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate financial benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

4.3.6 Other intangible assets

This account records the customer portfolio that arose from business combinations. It is recognized at fair value at the acquisition date and it is amortized on a straight-line basis over its useful life, which is generally estimated to be 10 years.

4.4 Property, plant and equipment

Property, plant and equipment are stated at cost, whether this is the acquisition price or production cost. The cost of property, plant and equipment acquired through business combinations is their fair value at the acquisition date.

After initial recognition, property, plant and equipment is measured at cost, less accumulated depreciation and, if appropriate, the accumulated amount of recognized impairment losses.

Expenses relating to repairs and maintenance that do not extend the useful lives of assets are taken directly to the profit and loss account for the year. The costs of renovation, expansion or improvement that give rise to an increase in production capacity or an extension of the useful lives of the assets are added as an increase in the value of the asset concerned and, if appropriate, eliminating the carrying amount of the replaced items.

Property, plant and equipment is depreciated on a straight-line basis over the estimated used life of those assets, starting at the time they are available to be used in operations.

Set out below are the estimated useful lives of property, plant and equipment:

	Years of useful life
Construction	25 years
Machinery, installations, tools and furniture	5 - 20 years
Other intangible assets	10 years

At the end of each year the Group reviews residual values, useful lives and depreciation methods applied to property, plant and equipment and if appropriate they are adjusted on a prospective basis.

4.5 Real estate investments

Investment properties consist of office lots owned by the Company that are maintained to obtain long-term income and are not occupied by the Group. The items included under this heading are measured based on their acquisition cost and any impairment loss they may have undergone.

4.6 Interest expense

Financial expense directly attributed to the acquisition or construction of property, plant and equipment that requires more than one year to be prepared for use is stated at cost until the assets are ready for operation.

4.7 Consolidation goodwill

Goodwill at the time of acquisition is initially valued at cost, which is the excess over the cost of the business combination represented by the fair value of the identifiable assets acquired, less liabilities assumed.

After initial recognition goodwill is recorded at cost, less accumulated amortization and recognized accumulated impairment. Useful life is determined separately for each of the CGUs to which the goodwill has been assigned and the estimation is that it is 10 years (in the absence of evidence to the contrary). An annual analysis is performed to determine whether or not there are any indications of the impairment of the cash generating units to which the goodwill has been assigned and, if there are, any possible impairment is verified.

The impairment loss adjustments recognized in Goodwill cannot be reversed in subsequent years.

The Group estimates pre-tax discount rates which reflect the time value of money and the risks specific to the cash-generating unit. The growth rates and the changes in prices and costs are based on internal and industry forecasts and experience and future expectations, respectively.

Arteche Group also performs sensitivity analyses regarding its projection studies, modifying the variables that have the most impact on cash flows. This primarily affects expected growth and gross margins, as well as discount rates.

4.8 Impairment of non-financial assets

Assets subject to amortization are subjected to in impairment tests provided that some event or a change in circumstances indicates that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value minus either the costs to sell or the value-in-use, whichever is higher.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets, other than goodwill, that present an impairment loss are reviewed at each balance sheet date to determine whether or not the loss has reversed.

4.9 Leases

Leases are classified as finance leases when the applicable financial conditions determine that substantially all risks and rewards inherent to the ownership of the asset covered by the contract are transferred to the lessee. Otherwise, the contracts are classified as operating leases. Assets acquired under finance leases are recognized based on their nature at the lower of their fair value and present value of the minimum agreed lease installments at the start of the lease, including the purchase option, and a financial liability in the same amount is also recognized. Neither contingent amounts nor the cost of services and taxes that must be charged to the lessee are included in this calculation. The payments made for the lease are distributed among financial expense and the reduction of the liability. The lease’s full financial burden is charged to the consolidated income statement in the year in which it accrues, applying the effective interest rate method. The depreciation, impairment and disposal criteria applied to assets of the same nature are applied to the assets.

Payments for operating leases are recognized as an expense in the consolidated income statement when they accrue.

4.10 Financial assets

<u>Classification and measurement</u>

During their initial recognition, the Group classifies all financial assets into one of the categories listed below, which determines the initial and subsequent applicable measurement method:

- Financial assets at fair value with changes in profit or loss
- Financial assets at amortized cost
- Financial assets at fair value with changes in equity

- Financial assets at cost

Financial assets at fair value with changes in profit or loss

The Group classifies a financial asset into this category, unless it is to be classified into any of the other categories.

In any event, financial assets held for trading are included in this category. The Group considers that a financial asset is held for trading when at least one of the following three circumstances is met:

a) It is produced or acquired in order to sell it in the short term.
b) At the time of initial recognition, the asset is part of a portfolio of identified and jointly managed financial instruments for which there is evidence of recent actions aimed at short-term profit.
c) It is considered a derivative financial instrument, provided that it is not a financial guarantee contract and has not been designated as a hedging instrument.

In addition to the above, upon initial recognition the Group can irrevocably designate a financial asset which would otherwise have been included in another category as an asset measured at fair value with changes in profit or loss (generally referred to as a "fair value option"). This option may be selected provided that it eliminates or significantly reduces a measurement inconsistency or accounting asymmetry that would otherwise arise from asset or liability being measured on different bases.

Financial assets in this category are initially measured at fair value which, unless there is evidence to the contrary, is assumed to be the transaction price, i.e., the fair value of the consideration provided. Directly attributable transaction costs are recognized in the annual income statement (i.e. they are not capitalized).

After initial recognition, the Group measures the financial assets in this category at fair value through profit or loss (financial income/expense).

Financial assets at amortized cost

The Group places a financial asset into this category, even when it is admitted to trading in organized markets, if the following conditions are met:

- The Group holds the investment under a management model whose objective is to receive the cash flows derived from contract execution.

  The management of a portfolio of financial assets to obtain their contractual flows does not mean that all instruments must necessarily be held to maturity; financial assets may be considered to be managed with this aim even if sales have occurred or are expected to occur in the future. To this end, the Group takes into consideration the frequency, amount and timing of sales in prior years, the motivation behind said sales and the expectations regarding future sales activity.

- On specific occasions, the contractual characteristics of the financial asset give rise to cash flows that are solely principal amount collections and interests on the pending amount. That is to say that said cash flows are inherent to an agreement of an ordinary or common loan nature, notwithstanding the fact that the transaction is finalized at a below market or zero interest rate.

In general, this category includes receivables from trade transactions ("Trade receivables for sales and services rendered") and receivables from non-trade transactions ("Sundry receivables", "Loans to companies", "Other financial assets" and "Loans to third parties").

Financial assets in this category are initially measured at fair value which, unless there is evidence to the contrary, is assumed to be the transaction price, i.e., the fair value of the consideration provided plus any directly attributable transaction costs. In other words, inherent transaction costs are capitalized.

However, trade receivables that are reaching maturity in under one year and which do not have an explicit contractual interest rate, as well as receivables from personnel, dividends receivable and payments due on equity instruments—the amount of which is expected for collection in the short term—are valued at their nominal value, in the event that not discounting cash flows has an insignificant effect.

The amortized cost method is used for subsequent measurement. Accrued interest is recognized in the income statement (financial revenue) using the effective interest method.

Loans that are reaching maturity in under one year and which are initially valued at their nominal value, as per the aforementioned, will retain said value amount, unless impaired.

In general, when the contractual cash flows of a financial asset at amortized cost change due to the issuer's financial difficulties, the Group analyzes whether an impairment loss should be recognized.

Financial assets at cost

In any event, the Group includes the following items in this category:

a) Investments in equity instruments whose fair value cannot be determined by reference to a price quoted in an identical instrument active market or which cannot be reliably estimated, and any derivatives whose underlying assets are said investments.

b) Hybrid financial assets whose fair value cannot be reliably estimated, unless requirements for accounting at amortized cost are met.

c) Contributions made as a result of a joint account contract and the like.

d) Participation loans of contingent interest, either because a fixed or variable interest rate is agreed upon subject to a milestone achievement on the part of the financed company (for example, securing profits), or because they are calculated exclusively by reference to the progress of said company's activity.

e) Any other financial asset that should be initially classified in the fair value portfolio with changes in profit and loss when obtaining a reliable fair value estimate is not possible.

Investments included in this category are initially measured at cost, i.e., the fair value of the consideration provided plus any directly attributable transaction costs. In other words, inherent transaction costs are capitalized.

Any subsequent measurement is also performed at cost minus any accumulated impairment losses.

Financial assets at fair value with changes in equity

A financial asset is o be included in this category when, at specified dates, the contractual terms of the financial asset give rise to cash flows that are solely principal amount collections and interests on the pending amount, and as long as it is not held for trading or included in the "Financial assets at amortized cost" category. Also included in this category are any investments in equity instruments for which the irrevocable option accounted for under the “Financial assets at fair value with changes in profit or loss” section has been exercised.

Financial assets in this category are initially measured at fair value, which, unless there is evidence to the contrary, is the transaction price, i.e. the fair value of the consideration provided any plus directly attributable transaction costs.

The initial measurement will include any amount corresponding to preemptive subscription rights or to similar rights that may have been acquired.

Subsequently, the financial assets included in this category are valued at fair value, without deducting any transaction costs that may be incurred in their sale. Changes in fair value are recorded directly in equity until the financial asset is derecognized or impaired, at which time the amount recognized as such is transferred to the income statement.
However, impairment adjustments and profits and losses resulting from exchange differences on monetary financial assets in foreign currency are recorded in the income statement, in accordance with the foreign currency standard.

The interest amount, calculated using the effective interest method, as well as accrued dividends are also recorded in the income statement.

When these assets are to be valued due to derecognition or to other reasons, the weighted average value method for homogeneous groups is used.

Derecognition of Financial Assets from the Consolidated Balance Sheet

The Group derecognizes a financial asset from the consolidated balance sheet when:

- The contractual rights to the asset's cash flows expire. In this sense, a financial asset is derecognized when it has expired and the Group has received the corresponding amount.

- The contractual rights to the financial asset's cash flows have been transferred. In this case, the financial asset is derecognized when the risks and rewards of ownership have been substantially transferred. In particular, in repurchase agreements, factoring and securitizations, the financial asset is derecognized once the Group's pre-transfer and post-transfer exposure to the change in the amounts and timing of the net cash flows of the transferred asset has been compared. It is then concluded that the risks and rewards have been transferred.

4.11 Impairment of the value of financial assets

Debt instruments at amortized cost or fair value with changes in equity

Upon year-end closing, the Group is to analyze whether there is objective evidence that the value of a financial asset or of a group of collectively-valued financial assets sharing risk characteristics has been impaired as a result of one or more events that occurred after initial recognition and caused a reduction or delay in the estimated future cash flows, which may in turn have been caused by the financed party's insolvency.

If evidence of this is found, the impairment loss is calculated as the difference between the carrying amount and the present value of future cash flows, including, if applicable, those estimated to result from the enforcement of collateral and personal guarantees, discounted at the effective interest rate calculated at the time of initial recognition. For financial assets at variable interest rates, the effective interest rate applicable at the closing date of the financial statements is used pursuant to contractual conditions. The Group uses models based on formulas or statistical methods when calculating impairment losses on a group of financial assets.

Impairment losses, as well as their reversal in the event the amount of such loss decreases due to a subsequent event, are recognized as an expense or income, respectively, in the income statement. An impairment reversal is limited to the asset's carrying amount as it would have been recognized at the date of reversal if no impairment had been recorded.
As a substitute for the present value of future cash flows, the Group uses the instrument market value, provided that it is sufficiently reliable to be considered representative of the value that could be recovered by the company.

In the case of assets at fair value with changes in equity, accumulated losses recognized in equity due to a decrease in fair value are recognized in the income statement, provided there is objective evidence of asset value impairment.

Equity instruments at fair value with changes in equity

In the case of equity instruments investments, the lack of recoverability of the asset's carrying amount can be caused, for example, by a prolonged or significant decline in its fair value.

In any case, an instrument will be presumed impaired if its market price falls by one and a half years or forty percent without the recovery of its value, without prejudice to the possibility that it may be necessary to recognize an impairment loss before this period has elapsed or the market price has fallen by the aforementioned percentage.

The impairment adjustment of these financial assets is calculated in the same way as for debt instruments at fair value with changes in equity, and is recognized in the income statement. However, in the event of an increase in the fair value of an equity instrument, the value adjustment recognized in prior years will not be reversed with a credit to the income statement and the increase in fair value will be recorded directly against equity.

Financial assets at cost

In this case, the value adjustment amount is the difference between its carrying amount and the recoverable amount. The recoverable amount is in turn understood as its fair value minus the selling costs or the present value of the future cash flows derived from the investment, whichever is higher of the two. In the case of equity instruments, future cash flows are calculated either by estimating those expected to be received as a result of the distribution of dividends by the investee company and the disposal or derecognition of the investment in said company, or by estimating its share of the cash flows expected to be generated by the investee company, both from its ordinary activities and from its disposal or derecognition. Unless there is better evidence of the recoverable amount of investments in equity instruments, the impairment loss estimate on this type of asset is calculated on the basis of the investee company's equity and the unrealized gains existing at the date of appraisal, net of the tax effect.

The recognition of impairment losses and their reversals, where applicable, are recorded in the income statement as an expense or income, respectively. An impairment reversal is limited to the investment’s carrying amount as it would have been recognized at the date of reversal if no impairment had been recorded.

4.12 Financial liabilities

Classification and measurement

Upon initial recognition, the Group places all financial liabilities into one of the categories listed below:

- Financial liabilities at amortized cost
- Financial liabilities at fair value with changes in profit or loss

All of the Group's financial liabilities are in the "Financial liabilities at amortized cost" category and correspond to financial liabilities arising from the purchase of goods and services for the Company's business operations and payables for non-trade transactions that are not derivative instruments.

Upon initial recognition in the balance sheet, they are recorded at fair value, which unless there is evidence to the contrary, is the transaction price, i.e. the fair value of the consideration received any plus directly attributable transaction costs.

After initial recognition, these financial liabilities are measured at amortized cost. Accrued interest is recognized in the income statement using the effective interest method.

However, trade payables that are reaching maturity in under one year and which do not have a contractual interest rate, as well as payments to third parties on investments—the amount of which is to be paid in the short term—are valued at their nominal value, in the event that not discounting cash flows has an insignificant effect.

4.13 Financial derivatives and hedge accounting

Financial derivatives are initially and subsequently measured at fair value. Resulting gains and losses are recognized depending on whether the derivative is designated as a hedging instrument or not and, if so, the nature of the item being hedged. The Group designates certain derivatives as:

a) Fair value hedge

Changes in the fair value of derivatives that are designated and classified as hedges of fair value are recorded in the income statement together with any change in the fair value affecting the hedged asset or liability that is attributable to the hedged risk.

The Group does not engage in fair value hedges.

b) Cash flow hedges

The Group carries out cash flow hedges, which hedge the exposure to the risk of changes in cash flows attributable to changes in interest rates on loans received. In order to mitigate the risk of interest rate fluctuations on loans, interest rate swaps (IRS) and maximum interest rate (cap) options are contracted.

The Group also enters into contracts to hedge the risks arising from variation in foreign exchange rates (forward contracts).

At the inception of the hedge, the Group formally designates and documents the hedging relationships, as well as the objective and strategy it assumes with respect to the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in offsetting changes in cash flows attributable to the hedged risk.

In addition, in hedges of forecast transactions, the Company assesses whether such transactions are highly probable and whether they present an exposure to changes in cash flows that could ultimately affect profit or loss for the year.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized temporarily in equity. They are charged to the consolidated income statement in the years in which the forecast hedged transaction affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or liability, in which case the amounts recorded in equity are included in the cost of the asset when acquired or of the liability when assumed.

In those derivatives where hedge accounting is not applied, changes in fair value are taken directly to the consolidated income statement.

4.14 Inventory

Inventories are measured at the lower of cost and their net realizable value. When the net realizable value of inventories is less than cost, the appropriate value adjustments are made and recognized as an expense in the consolidated income statement. If the circumstances causing the value adjustments cease to exist, the amount of the adjustment is reversed and recognized as income in the consolidated income statement.

This consolidated balance sheet heading includes the assets that the Arteche Group:

- Maintains for sale during the ordinary course of its business.
- Is producing, constructing or developing with the purpose of selling, except with respect to the work in progress for which income is recognized based on the stage of completion, in accordance with the matters indicated in Note 4.23.
- Expects to consume said assets in the production process or in the provision of services.

The cost is determined using the weighted average cost. The cost of finished products and work in progress comprises design costs, raw materials, direct labor, other direct costs and general production overheads (based on normal operating capacity). The net realizable value is the estimated selling price in the ordinary course of business, minus the estimated selling expenses and, in the case of raw materials and work in progress, the estimated production costs.

In the case of inventories that require a period exceeding one year to be ready to be sold, financial expense is included in the cost under the same terms established for assets.

4.15 Equity

Share capital consists of ordinary shares.

The costs of issuing new shares or options are recognized directly in equity as a reduction in reserves.

In the event that the Company acquires treasury shares, the price paid, including any directly attributable incremental cost, is deducted from equity until the treasury shares are redeemed, reissued or sold. When these shares are sold or subsequently reissued, any amount received, net of any directly attributable incremental cost of the transaction, is included under equity.

4.16 Cash and cash equivalents

This heading includes petty cash, bank accounts and deposits and assets acquired under repurchase agreements that meet all of the following requirements:

- They are convertible into cash.
- The maturity date does not exceed three months at the time of acquisition.
- They are not subject to any significant risk of any change in value.
- They are part of the Group's normal cash management policy.

For the purposes of the cash flow statement, occasional overdrafts that form part of the Group's cash management are included as a reduction of cash and cash equivalents.

4.17 Grants

Repayable grants are recognized under liabilities until the conditions are fulfilled for the grants to be treated as non-repayable. Non-repayable grants are recognized directly in equity and are charged to income on a systematic and rational basis, in line with grant costs. Non-repayable grants received from shareholders are recognized directly in equity.

A grant is deemed to be non-repayable when it is awarded under a specific agreement, all stipulated grant conditions have been fulfilled and there are no reasonable doubts that it will be collected. Monetary grants are carried at the fair value of the amount granted while non-monetary grants are carried at the fair value of the asset received, at the recognition date in both cases.

Non-repayable grants related to the acquisition of intangible assets, property, plant and equipment, and investment properties are recognized as income for the period in proportion to the amortization or depreciation charged on the relevant assets or, if applicable, upon their sale, adjustment due to impairment losses or write-off. Non-repayable grants relating to specific expenses are recognized in the income statement of the year in which the relevant expenses accrue, together with those grants allocated to offset operating deficits of the year when they were granted, except when they are used to offset operating deficits in future years in which case they are attributed to those years.

4.18 Current and deferred taxes

The following group subsidiaries are taxed on a consolidated basis with the parent Arteche Lantegi Elkartea, S.A., new tax consolidation parent company since 2018: Electrotécnica Arteche Hermanos, S.L., Electrotécnica Arteche Smart Grid, S.L., Inversiones Zabalondo, S.L., Arteche Smart Grid, S.L.U., Arteche Instrument Transformers, S.L., Arteche Turnkey Solutions, S.A. and Arteche Ventures, S.L. This tax group has been assigned the number 02918 BSC for administrative purposes. In 2022, Arteche Hitachi Energy Instrument Transformers, S.L. ceased to belong to the tax consolidation group as the minimum shareholding legal requirement was not met (Note 2.4).

The rest of the Group's subsidiaries are taxed individually for corporate income tax purposes in accordance with the different tax regimes applicable depending on the different registered offices.

The income tax expense or income is the amount accrued in the year and includes both current and deferred tax expense or income.

Both the current and deferred tax expense or income is recorded in the income statement. However, the tax effect related to items that are recorded directly in equity is recognized in equity.

Current tax assets and liabilities are measured at the amounts expected to be paid to or recovered from the tax authorities, in accordance with the regulations in force or approved and pending publication at the year-end date.

Deferred taxes are calculated, in accordance with the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

However, if deferred taxes arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor the tax base, they are not recognized. Deferred tax is determined by applying tax regulations and tax rates enacted or substantively enacted at the balance sheet date that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

4.19 Provisions and contingencies

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are carried at the present value of the payments that are expected to be necessary to settle the obligation, using a rate before taxes that reflects the evaluation of the current market for the temporary value of money and the specific risks relating to the obligation. Adjustments made to update the provision are recognized as a financial expense as they accrue.

Provisions maturing in one year or less, the financial effect of which is immaterial, are not discounted.

Where a part of the outflow necessary to settle the obligation is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset, provided collection is virtually assured.

4.20 Business combinations

Merger, spin-off and non-monetary contributions of a business among group companies are recorded in accordance with the provisions for transactions between related parties (Note 4.26).

Merger or spin-off transactions other than those indicated above and business combinations arising from the acquisition of all of the equity of a company or a portion of that equity that constitutes one or more businesses, are recorded in accordance with the acquisition method (Note 4.1).

4.21 Non-current employee benefit liabilities

The group companies do not have retirement pension plans for their employees and those obligations are covered by the public pension systems in each jurisdiction.

Certain Spanish companies have established length of service awards for all employees based on the number of years they render their services and which entitle them to receive certain financial benefits and paid leave. Mexican subsidiaries are required to pay a length of service award as well This cost is regularly recognized based on the calculations made by independent actuaries using the projected credit unit method and applying financial assumptions net of inflation. The measurement of the financial compensation for these length of service awards is recognized in the account “Non-current employee benefit obligations” of the consolidated balance sheet.

4.22 Termination benefits

Pursuant to the employment legislation in force in each country, the termination benefits which may be reasonably quantified and are payable to employees dismissed by Arteche Group under specific circumstances are recognized as an expense for the year in which a valid expectation exists on the part of the affected parties.

4.23 Income recognition

The Group recognizes revenue stemming from the ordinary course of business when the transfer of control of the goods or services that had been contractually obligated to customers takes place.

In order to apply this fundamental revenue recognition criterion, the Group follows the full process consisting of the following successive stages:

a) Identify the contract (or contracts) with the customer, understood as an agreement between two or more parties which creates enforceable rights and obligations for them.

b) Identify the contract obligation(s) to be fulfilled, i.e. the contractual obligations to transfer goods or provide services to a customer.

c) Determine the transaction price, or contract consideration to which the company expects to be entitled in exchange for the transfer of goods or rendering of services contractually obligated to the customer.

d) Assign the transaction price to the obligations to be fulfilled, basing it on the individual sales prices of each specific contractual obligation (good or service) or, if said price is not independently observable, on a sales price estimate.

e) Recognize revenue from ordinary activities when the company fulfills a contractual obligation through the transfer of a good or the rendering of a service. Fulfillment that takes place when the customer gains control of that good or service, so that the amount of revenue recognized will be the amount assigned to the contractual obligation fulfilled.

Recognition

The Group recognizes revenue from a contract when control over the contractually obligated goods or services (i.e. the obligation(s) to be performed) is transferred to the customer.

At the beginning of the contract, the Group determines whether each of the contractual obligations undertaken is to be fulfilled over time or at a specific point in time.

Revenue from contractual obligations fulfilled over time is recognized on the basis of the degree of progress towards complete fulfillment of said obligations, provided that the Group has reliable information to measure their degree of progress.

In the case of contractual obligations fulfilled at a certain point in time, revenues derived from their execution are recognized at their fulfillment date. Costs incurred in the production or manufacture of the product are recorded as inventories.
Indicators of compliance with obligations at a given point in time

In order to identify the specific moment at which the client gains control over the asset, the company takes the following indicators into consideration:

a) The customer assumes the significant risks and rewards attached to the ownership of the asset.
b) The company transfers physical possession of the asset.
c) The customer receives the asset in accordance with contractual specifications.
d) The company has the right to collect as a result of transferring the asset.
e) The customer has ownership of the asset.

Assessment

a) Sales income

Revenue from the sale of goods and the rendering of services is measured at their monetary amount or, if applicable, at the fair value of the consideration received or expected to be received. The consideration is the price agreed in order for the assets to be transferred to the customer minus any discounts, price rebates or other similar items that the company may grant, as well as the interest added to the receivables' nominal value.

b) Revenue from services rendered

Income from the rendering of services is recognized taking into consideration the extent to which the service has been rendered at the balance sheet date, provided that the result of the transaction may be reliably estimated.

c) Stage of completion

The Arteche Group applies the degree of progress criterion for the appraisal of contracts in the automation systems business. These agreements have been defined in accordance with the specific technical specifications that apply to each individual project and bind the parties to comply with their respective obligations. Under these agreements there is a systematic and substantial transfer of risks and rewards to the extent that the activity is carried out by the Group companies. The Group records the income generated by these sales agreements that at December 31 have not yet been fully completed, given that they comply with the following requirements:

- There is a firm commitment from the buyer.
- The total revenues to be received may be estimated with an acceptable degree of confidence.
- The Group will likely receive the profits or financial yields deriving from the transaction.
- The costs up until fulfillment of the contract, and the degree of completion to date, can be reliably estimated.

This policy involves the recognition as revenue in the consolidated income statement of the result of applying to the estimated overall profit margin on each contract the stage of completion of the wind farm at the end of the reporting period. The percentage of completion is measured by reference to economic criteria, i.e. the percentage that contract costs incurred until the end of the reporting period represent with respect to the estimated total contract costs to be incurred until contract completion.

The calculation of the profit recognized for each project in progress is obtained by applying the stage of completion method to the difference between:

- The total income to be obtained from the contract selling price, plus the number of claims previously accepted by the customer, and
- The actual costs incurred to date plus an estimate of the costs pending until the project is completed.

If the total estimated costs exceed the contract revenue, the related loss is recognized immediately in the consolidated income statement.

d) Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to the recoverable amount and discounts the estimated future cash flows at the original effective interest rate of the instrument and continues to carry the discount as a decrease in interest income. Interest income on loans that have become impaired is recognized using the effective interest method.

e) Dividend income

Dividend income is recognized in the income statement at the time the entitlement to receive the dividends is established. Notwithstanding the foregoing, if the dividends distributed originate from profits generated prior to the acquisition date they are not recognized as income but rather as lowering the carrying amount of the investment.

4.24 Transactions in foreign currency

a) *Functional and presentation currency*

The functional currency is the currency of the main economic environment in which the Group operates, i.e. the currency of the environment in which the Group generates and employs cash.

The consolidated annual accounts are presented in euro, which is the Group's functional and presentation currency.

b) *Translation of the annual accounts to a currency other than the euro*

The translation of the annual accounts for a Group company whose functional currency is not the euro is carried out in accordance with the following rules:

- Assets and liabilities are translated at the closing exchange rate, which is the average spot rate at that date.
- Equity items, including profit for the year, are translated at the historic exchange rate.
- The difference between net assets and liabilities and equity items is recognized in an equity heading called "Difference on exchange" net of the tax effect, if appropriate, and after having deducted the portion of that difference that relates to minority shareholders, and
- Cash flows are translated at the exchange rate on the date of each transaction or using an average weighted exchange rate for the monthly period, provided that there have not been any significant variances.

The difference on exchange recorded in the consolidated income statement is recognized in the consolidated profit and loss account for the period in which the investment in the consolidated company is sold or otherwise disposed of.

The historic exchange rate is:

- For equity items existing at the acquisition of the shares being consolidated: the exchange rate at the transaction date.
- In the case of revenues and expenses, including those recognized directly under equity: the exchange rate at the transaction date. If the exchange rates have not changed significantly, an average weighted rate for the annual period is used.
- Reserves generated after the transaction dates as a result of non-distributable results: the effective exchange rate resulting from translating the expenses and revenues that gave rise to those reserves.

Goodwill on consolidation and adjustments to the fair value of assets and liabilities deriving from the application of the acquisition method are considered to be elements of the acquired company, and therefore they are translated at the year-end exchange rate.

4.25 Environmental assets

The expenses relating to the decontamination and restoration of polluted areas, the elimination of waste and other expenses deriving from compliance with environmental legislation are recorded as expenses for the year in which they are incurred, unless they relate to the cost of purchasing assets which enter into the group companies' equity with the intention of being used on a lasting basis. In such cases the relevant items are recorded under the heading "Property, plant and equipment" and are depreciated using the same policies.

4.26 Related-party transactions

In general, intra-group transactions are initially recognized at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognized based on the financial reality of the transaction. The later valuation is made in line with the respective accounting standards.

Notwithstanding the above, in transactions involving a business, including shareholdings in equity that grant control over a company that constitutes a business, the Group applies the following criteria:

- Non-monetary contributions made to a group company business are measured, in general, at the carrying amount of the equity items incorporated into the consolidated annual accounts at the transaction date.
- In mergers and spin-offs of a business, the items acquired are measured, in general, at the amount recorded in the consolidated annual accounts, after the transaction has been completed. Any differences that arise are recognized in reserves.

Prices for transactions carried out with related parties are adequately supported and therefore the parent company's Directors consider that there are no risks that could give rise to significant tax liabilities.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial Risk Factors

The Arteche Group is exposed to certain financial credit, market (including interest rate risk, foreign exchange risk, commodity price risk and other price risks) and liquidity risks, which it manages by means of grouping together risk identification, measurement, concentration limitation and oversight systems. Financial risk management and limitation is carried out in a coordinated manner by both the Arteche Group's Finance Department and the regions, pursuant to the policies approved at the highest executive level and the established regulations, policies and procedures, which are periodically approved and supervised by the Board of Directors of the Parent Company.

In 2021, the Board of Directors approved the General Risk Management and Control Policy, a reference framework for financial risk management. In 2024, on the recommendation of Management, the Audit and Compliance Committee submitted an update of the Risk Control and Management Policy and a new Internal Control over Financial Reporting System ("ICFR") Policy, which are currently being analyzed by the Board as of the date of these consolidated financial statements.

The Group's risk management focuses on financial market uncertainty, and seeks to minimize potential adverse effects on the Group's financial profitability. The Group uses derivative financial instruments to hedge certain risk exposures.

(Thousand euro)

a) Credit risk

Credit risk arises from the potential losses that may arise from the failure of the group companies' counterparties to comply with contractual obligations, i.e. the possibility that the financial assets may not be recovered at their carrying amount or within the established term.

Arteche Group's maximum exposure to credit risk at December 31, 2023 and 2022 is as follows:

	Thousand euro	
	2023	**2022**
Non-current financial investments (except equity instruments)	1,447	2,731
Trade and other receivables (except balances with public administrations)	52,417	56,631
Short-term financial investments	4,086	3,305
	57,950	**62,667**

As part of its policy to reduce exposure to risk, the Arteche Group has reached a factoring without recourse agreement with a financial institution that allows it to assign the commercial insolvency risk relating to certain trade receivables to that institution.

In these financing transactions, the derivative instruments entered into and the cash financing transactions are arranged exclusively with financial institutions with high and recognized credit ratings.

As a result of the control procedures described above, during the 2023 fiscal year, 308 thousand euro have been recorded as impairment in the provision for insolvencies. In addition, 521 thousand euro have been offset against results for the period (in the 2022 fiscal year an impairment of 377 thousand euro was recorded).

In order to manage credit risk, the Group makes a distinction between the financial assets originating from operating and investment activities.

Operating activities

The Sales Department and the credit control area of the Finance Department require customers to have an appropriate credit history before approving the sale of products and services and they establish credit limits for each customer that are established based on internal information and that received from specialized company solvency analysis companies. In addition, since Arteche Group operates in the electric power industry, it has a customer base with very good creditworthiness.

However, since basically international sales are involved, mechanisms such as irrevocable letters of credit and insurance policies are used to ensure collection as a second risk mitigation strategy. The purpose of the credit insurance policies taken out to this end is to cover the economic impact in the event of large claims for which the internal system has proven inefficient in predicting insolvency.

Fortnightly a breakdown of the age of each outstanding balance is prepared, which serves as a basis for managing collections. Overdue accounts are claimed on a monthly basis by the credit control area of the Finance Department and the commercial department of each company of the group and, if appropriate, subsequent legal claims are made. Customer credit limits are reviewed on a regular basis, primarily those that have shown delays in payment.

Generally, the average customer collection period is around 60 days.

The actual level of insolvencies that Arteche Group has faced over the past few years has been very low due to the high quality of its customer portfolio. Outstanding balances generally originate from customer claims due to a delay in delivery or alleged quality defects, which are diligently analyzed and resolved. There is a log of outstanding items and pending claims to be resolved by geographical area. These items are regularly reported (situation, review status and solutions) to the Board of Directors of the parent company. In the event that the claims are considered to be likely, a provision is immediately recorded.

Losses incurred, if any, are calculated based on an individual analysis of each customer.

Investment activities

The credit risk arising from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions is considered insignificant due to the credit quality of the banks with which the Group operates.

The Group's investment policies establish that:

- Any investment in fixed-income funds and in listed shares must be approved by the Board of Directors of the parent company.
- The Group's Finance Department must approve investments in all other available funds, bank deposits and other financial assets with no short-term risk.
- All operating investments are subject to different levels of approval by the regional committees, the Group's management committee and the Board of Directors, and they are prioritized according to return rate.

b) Market risk

Market risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market prices. Market risk includes interest rate risk, foreign exchange risk, raw material price risk, energy cost inflation risk and other price risks.

Interest rate risk

Interest rate risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market interest rates. The Group's exposure to the risk of changes in interest rates is mainly due to the need to maintain a balanced debt structure between fixed and variable interest rates (normally, Euribor), with the premise of maintaining an adequate balance between financing costs and the risk of interest rate variations.

The Arteche Group has arranged most of its borrowings at floating rates and uses hedging instruments, where appropriate, to minimize the risk when the financing is non-current. Hedging instruments that are specifically assigned to debt instruments are interest rate derivatives and have at most the same nominal value.

These instruments' effectiveness in fixing the interest rate of the financing policies contracted is assessed and documented based on methodologies pursuant to applicable accounting regulations.

This interest rate risk control policy is materialized in the contracting of interest rate derivatives for a total notional value of 31.8 million euro (Note 18.2) at December 31, 2023, having hedged the interest rate variation risk of approximately 43% of the long-term debt contracted at a variable rate. If we also take into account the loans already contracted at a fixed rate, the Arteche Group now has interest rate risk coverage for approximately 52% of its total non-current loan debt.

Currency risk

This risk arises as a result of the international transactions carried out by Arteche Group in the ordinary course of its business. A portion of its income and costs are denominated primarily in US dollars, Mexican pesos, Brazilian real, Argentinian pesos and Chinese renminbi.

Therefore, if Arteche Group does not use financial instruments to hedge its net exposure to current and future exchange rate risk, its earnings could be affected by fluctuations in the euro/other currency exchange rate.

In order to manage and minimize this risk, Arteche Group uses hedging strategies at the group level, since its objective is to generate profits only through its ordinary business, and not by speculating in relation to exchange rate fluctuations.

Arteche Group analyzes foreign currency risk on the basis of its firm order book and the planned transactions that are highly probable on the basis of contractual evidence. Risk exposure limits are established each year for a time horizon of less than one year to adapt to market trends, which are always associated with the Group's net cash flows. The instruments used to minimize this risk consist basically of exchange-rate hedges and currency derivatives and they are always contracted by the Group's parent company.

In 2023 and 2022, the Group carried out net balance sheet positions and issued orders associated with business operations. The transactions were contracted to ensure sales levels of effective cash balances (balances of accounts in dollars), and to offset the recoverable position differences with USD. The effect of these transactions is reflected in Notes 18.2 and 21, respectively.

The Group has several investments in foreign operations which have net assets in currencies other than the euro and which are therefore exposed to translation risk. The exchange rate risk on the net assets of the Group's foreign operations is managed mainly by optimizing the financing structure with external resources (loans) denominated in foreign currencies and by minimizing shareholders' equity.

Raw material price risk

Fluctuations in the variables that set raw material prices, represented by the variability of global commodity markets, can affect the cost of the production process and can have a greater or lesser impact on business profitability. The Group is exposed to variations in the prices of raw materials listed on regulated markets.

In order to mitigate this risk, the Group's companies employ a strategy of geographical market and supplier diversification through constant monitoring of supply and demand and active management of optimum stock levels. In addition, the Arteche Group has implemented measures to adapt sales prices and to continuously follow up on and monitor market variables that determine the prices of certain raw materials, such as copper, eventually including the contracting of derivative financial instruments to hedge them.

(Thousand euro)

Energy cost inflation risk

The abnormally inflationary context in industrial production costs impacts the production cost structure. In particular, energy consumption—mainly natural gas and electricity—represents a considerable source of operating expenses that is inherent to the production and manufacturing process.

In order to manage the impact of this risk, the Group employs specific control processes to mitigate potential unforeseen effects on operating margins in the event of inflationary market trends.

Other price risks

The Group's exposure to price risk of equity security due to investments classified in the consolidated balance sheet as "Financial assets at fair value with changes in equity" is not significant given the low importance of these investments in the context of the Group's total assets and the shareholders' equity.

The acquisition of shares in unlisted companies must be approved by the Board of Directors of the parent company.

As of December 31, 2023, the maximum exposure to equity instrument price risk amounts to 178 thousand euro (245 thousand euro at December 31 2022).

c) Liquidity risk

Exposure to adverse debt or capital market situations may make it difficult or impede the coverage of the financial needs required to adequately carry out the business activities of Arteche Group and its strategic plan.

The liquidity policy followed by the Group ensures compliance with payment commitments acquired without having to obtain funds under unfavorable conditions. Different management methods are used to this end, such as holding sufficient and flexible credit facilities, diversifying financing needs coverage by accessing different markets and geographic areas, and diversifying maturity dates for issued debt. In addition, depending on liquidity needs, the Group uses financial liquidity instruments (non-recourse factoring, confirming and commercial paper discounting).

The Finance Department regularly monitors the Group's liquidity needs to ensure that it has sufficient cash to meet its operating needs and that credit facilities as well as net financial debt are sufficiently available to it.

	Million euro	
	2023	**2022**
Gross financial debt	**104.2**	**107.5**
Bank borrowings (including finance leases) (Note 18.1)	**55.4**	**38.8**
Syndicated loan	14.6	19.5
Other financial institutions	40.8	19.3
Other financial liabilities (Note 18.2)	**48.8**	**68.7**
Alternative Fixed-Income Market (MARF)	13.8	26.0
European Investment Bank (EIB)	17.4	19.9
Instituto de Crédito Oficial (ICO)	12.0	16.0

(Thousand euro)

Cofides	5.1	5.9
Other (excluding free financing)	0.5	0.9
Liquid assets (Note 12)	**(62.5)**	**(58.5)**
Cash and cash equivalents	(60.8)	(56.2)
Other cash equivalents	(1.7)	(2.3)
Net financial debt	**41.7**	**49.0**
Unused lines of credit and discounting bills	20.1	43.7
Tranche B Revolving Syndicated Loan	5.0	5.0
Available EIB and Cofides Loan	38.8	-
Undrawn MARF Commercial Paper programs	36.2	24.0
Availabilities	**100.1**	**72.7**

(*) A reconciliation of the Alternative Performance Metrics is included in the management report.

Additionally, at the end of 2023, the Group was authorized by various financial institutions to obtain non-recourse factoring lines for 52,331 thousand euro (48,322 thousand euro in 2022) and supplier payment management lines for 83,772 thousand euro (61,063 thousand euro in 2022). The factorized balance at December 31, 2023 amounts to 31,285 thousand euro (27,922 thousand euro at December 31, 2022).

(Thousand euro)

In addition, the following table details the working capital presented in the Group's consolidated balance sheet as of December 31, 2023 and 2022:

	Notes	Million euro 2023	Million euro 2022
Current asset		**221.1**	**210.7**
Current operating asset		**155.4**	**150.6**
Inventory	10	82.8	72.2
Trade and other receivables		72.6	78.4
Current non-operating asset		**65.7**	**60.1**
Short-term financial investments		4.1	3.3
Short-term accruals		0.8	0.6
Cash and cash equivalents	12	60.8	56.2
Current liabilities		**(180.5)**	**(182.0)**
Current operating liability		**(136.3)**	**(123.6)**
Trade and other payables		(136.3)	(123.6)
Non-current operating liability		**(44.2)**	**(58.4)**
Current creditors	18	(43.7)	(57.6)
Current provisions	17	(0.5)	(0.8)
Working capital		**40.6**	**28.7**

Although working capital in isolation is not a key parameter for understanding the Group's financial statements, Arteche actively manages its working capital through net working capital and net financial debt, based on the soundness, quality and stability of its relationships with customers and suppliers, as well as on exhaustive monitoring of its situation with financial institutions and financing entities.

As a result of the aforementioned, no significant liquidity risk has been estimated for 2024.

d) Debt and solvency risk

At December 31, 2023, the Arteche Group recorded a consolidated net financial debt of 41.7 million euro (49 million euro at December 31, 2022), which implies a 14.9% reduction when compared to the end of the previous year.

As a result, the financial solvency indicators at the end of 2023 reflect a debt equivalent to 1.02 times the EBITDA operating result for the last twelve months (compared to 1.63 times in 2022), thereby demonstrating the financial capacity of the business and the stability of Arteche Group's equity position.

The financing structure’s core focuses on non-current syndicated financing, MARF-issued commercial papers and financing from official entities such as the EIB, ICO and Cofides, which shows an adequate diversification of financing sources.

Some loans contain performance clauses with covenants linked to specific financial stipulations (covenants), which are standard practice in the market. As of the end of 2023, these commitments have been fulfilled. Group Management monitors changes in debt based on several indicators:

- Net Financial Debt / EBITDA
- Net Financial Debt / Equity - Shareholders' Funds
- EBITDA / financial expenses

In addition, the "Liquidity risk" section and Note 18 provide details of the main financing drawn down, discounted bills and cash and cash equivalents. At year-end, it is important to highlight the availability of undrawn credit lines and trade discount facilities amounting to 17.0 million and 3.1 million euro, respectively (25.2 million and 18.5 million euro at the end of 2022, respectively). In addition, the Group has loans available with EIB and Cofides for a total of 38.8 million euro, which were signed in 2023. What is more, 5 million euro corresponding to Tranche B of the Syndicated Loan are available to the Group in the form of a revolving credit line as of December 31, 2023 (5 million euro at December 31, 2022).

5.2 Fair value estimate

The fair value of financial instruments that are sold on active markets (such as financial assets at fair value through profit or loss) is based on market prices at the balance sheet date. The listed market price used for financial assets is the ordinary buy price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on the existing market conditions at each balance sheet date. For non-current debt, market prices or agent price quotes are used. Other techniques, such as estimated discounted cash flows, are used to determine the fair value of other financial instruments. The fair value of interest rate swaps and interest rate options is calculated as the present value of estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using exchange market rates at the balance sheet date.

It is assumed that the carrying amount of trade receivables and payables approximates their fair value. The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the group companies for similar financial instruments.

(Thousand euro)

6. GOODWILL ON CONSOLIDATION

Details and movements in the various items that make up this heading in the consolidated balance sheet in 2023 and 2022 are as follows:

	31.12.2022	Changes in scope and reestimates	Accumulated	Exchange differences	31.12.2023
Arteche North América, S.A. de C.V.	346	-	(124)	34	256
Arteche EDC Equipamientos e Sistemas, S.A.	123	-	(42)	4	85
Arteche DYH Electric Co., Ltd.	113	-	(37)	(5)	71
SAC Maker, S.A.U.	3,690	-	(1,846)	-	1,844
Arteche Chile, S.p.A.	55	-	(19)	(2)	34
Smart Digital Optics Pty, Limited	8,678	-	(929)	(305)	7,444
Esitaş Elektrik Sanayi veTicaret Anonim Sirketi	8,587	-	(591)	(3,337)	4,659
PT Esitaş Pacific	408	-	(47)	(10)	351
	22,000	**-**	**(3,635)**	**(3,621)**	**14,744**

	31.12.2021	Changes in scope and reestimates	Accumulated	Exchange differences	31.12.2022
Arteche North América, S.A. de C.V.	409	-	(112)	49	346
Arteche EDC Equipamientos e Sistemas, S.A.	144	-	(42)	21	123
Arteche DYH Electric Co., Ltd.	155	-	(40)	(2)	113
SAC Maker, S.A.U.	5,536	-	(1,846)	-	3,690
Arteche Chile, S.p.A.	69	-	(18)	4	55
Smart Digital Optics Pty, Limited	9,076	-	(998)	600	8,678
Esitaş Elektrik Sanayi veTicaret Anonim Sirketi	8,569	3,310	(956)	(2,336)	8,587
PT Esitaş Pacific	339	121	(39)	(13)	408
	24,297	**3,431**	**(4,051)**	**(1,677)**	**22,000**

As indicated in Note 4.7, the Group assesses the impairment of its goodwill on an annual basis. In this regard, for the purposes of the impairment test, the CGUs (cash generating units) identified by the Group correspond to each of the production subsidiaries and are directly equivalent to the Group's factories mentioned in the table above, except for SAC Maker, S.A.U., which includes the substation automation and distribution systems business developed in two interrelated production plants (Arteche ACP and Arteche EDC). Each of the CGUs corresponds to the smallest identifiable group of assets capable of generating cash inflows that are independent of the cash flows derived from other assets or groups of assets.

The projections are prepared for each CGU based on past experience and on the best estimates available, taking into account a time horizon that allows the business model to be normalized in each case, in keeping with the Company's business plans. The main components are:

- Projected results
- Investment and working capital projections

(Thousand euro)

For the calculation of value in use, the assumptions used include discount rates based on the weighted average cost of capital (WACC commonly used in the industry), which reflect the time value of money and the risks associated with the cash-generating units.

The most representative parameters used for the main cash generating units were as follows:

	2023			
	Discount rate (*)	**Long-term growth rate**	**Representative value for recoverable value**	**Time horizon**
CGU SAC Maker (**)	11.4%	2.0%	Value in use	5 years
CGU Smart Digital Optics (***)	12.2%	2.5%	Value in use	5 years
CGU Esitas Turkey (****)	21.8%	7.0%	Value in use	5 years

(*) Cash flows and after-tax discount rate
(**) 11.0% Discount Rate and 2% Growth Rate in 2022
(***) 12.0% Discount Rate and 2.5% Growth Rate in 2022
(****) 14.8% Discount Rate of and 2% Growth Rate in 2022

According to the estimates and projections available to the Directors of the Parent Company, the forecasts of income attributable to each of the cash generating units to which such goodwill is allocated adequately support the values of the goodwill recorded, and therefore no problems of recoverability of goodwill have been detected.

The Group has carried out the simulations detailed below, and no indications of goodwill impairment have been detected:

- Penalty on the discount rate by 100 b.p.
- Consideration of the flow to perpetuity as equal to the last year of budgeted flow, i.e., applying a 0% growth rate.

In addition to this analysis, an EBITDA penalty test was performed on all business plans.

Based on the sensitivity analyses performed by Management on the key variables, the Group considers that the margin in the recoverability of such goodwill is sufficient.

6.1 Description of the main movements

Esitaş Elektrik Sanayi ve Ticaret A.Ş

On July 9, 2021, Arteche Group acquired 100% of the share capital of Esitaş Elektrik Sanayi ve Ticaret A.Ş by means of one upfront payment and three deferred contingent payments that are subject to the evolution of certain of the acquired company's financial parameters. The amount paid for the purchase in July 2021 amounted to 6,424 thousand euro, with two additional payments having been made in February and May 2022 in the amount of 648 thousand and 2,764 thousand euro, respectively (939 thousand and 3,786 thousand euro net of the exchange risk insurance hedges).

The surcharge over costs incurred in the transaction with respect to the adjusted assets acquired and liabilities assumed was recorded for 12,010 thousand euro as Goodwill. During 2022, the Group re-estimated the aforementioned, recording an increase of 3,310 thousand euro, based on the update of the last contingent payment estimate, scheduled for May 2023.

In May 2023 the last payment was made, in the amount of 5,485 thousand euro. Contingent payments were hedged with exchange insurance, resulting in a net cash outflow for the Group of 6,296 thousand euro. The Group is currently in various disputes with the former shareholder regarding the contingent fee paid, and the resolution of these disputes is not expected to result in any significant additional liability for the Group.

PT Esitaş Pacific

On August 6, 2021, the Arteche Group acquired 100% of the capital stock of PT Esitaş Pacific through an upfront payment and three deferred contingent payments subject to the evolution of certain of the acquired company's financial parameters. The amount paid for the purchase in July 2021 amounted to 676 thousand euro, and two additional payments were made in February and May 2022 in the amount of 365 thousand and 277 thousand euro, respectively (367 thousand and 256 thousand euro net of the exchange risk insurance hedges).

The surcharge over costs incurred in the transaction with respect to the adjusted assets acquired and liabilities assumed was recorded for 335 thousand euro as Goodwill. During 2022, the Group re-estimated the aforementioned, recording an increase of 121 thousand euro, based on the update of the last contingent payment estimate, scheduled for May 2023.

In May 2023 the last payment was made, in the amount of 286 thousand euro. Contingent payments were hedged with exchange insurance, resulting in a net cash outflow for the Group of 260 thousand euro.

(Thousand euro)

7. OTHER INTANGIBLE ASSETS

The breakdown and movements in items making up this heading are as follows:

2023	Opening balance	Additions and allocations	Deactiva tion	Transfers	Exchange differences	Hyperinflation effect	Changes in the scope of consolidation (Note 2.4)	Closing balance
Cost								
Development	93,873	6,848	-	(36)	103	172	-	100,960
Concessions	614	-	-	-	(178)	-	-	436
Licenses	1,453	173	-	-	(105)	-	-	1,521
Software	13,272	1,381	-	(71)	(41)	64	-	14,605
Other intangible assets	10,415	108	(12)	107	(364)	-	-	10,254
	119,627	8,510	(12)	-	(585)	236	-	127,776
Accumulated amortization								
Development	(75,209)	(5,060)	-	-	(61)	(170)	-	(80,500)
Concessions	(360)	(144)	-	-	135	-	-	(369)
Licenses	(602)	(35)	12	-	62	-	-	(563)
Software	(11,020)	(519)	-	-	38	(60)	-	(11,561)
Other intangible assets	(5,166)	(458)	-	-	211	-	-	(5,413)
	(92,357)	(6,216)	12	-	385	(230)	-	(98,406)
Impairment	(518)	(232)	-	-	-	-	-	(750)
Net carrying amount	**26,752**							**28,620**

(Thousand euro)

2022	Opening balance	Additions and allocations	Deactiva tion	Transfers	Exchange differences	Hyperinflation effect	Changes in the scope of consolidation (Note 2.4)	Closing balance
Cost								
Development	88,592	5,624	(2)	-	335	186	(862)	93,873
Concessions	621	85	-	-	(92)	-	-	614
Licenses	1,552	202	-	-	(120)	-	(181)	1,453
Software	12,227	959	(49)	-	88	67	(20)	13,272
Other intangible assets	8,646	34	-	-	(197)	-	1,932	10,415
	111,638	6,904	(51)	-	14	253	869	119,627
Accumulated amortization								
Development	(70,235)	(5,019)	-	-	(274)	(184)	503	(75,209)
Concessions	(288)	(141)	-	-	69	-	-	(360)
Licenses	(765)	(116)	-	-	98	-	181	(602)
Software	(10,480)	(424)	-	-	(75)	(61)	20	(11,020)
Other intangible assets	(4,786)	(390)	-	-	10	-	-	(5,166)
	(86,554)	(6,090)	-	-	(172)	(245)	704	(92,357)
Impairment	(518)	-	-	-	-	-	-	(518)
Net carrying amount	**24,566**							**26,752**

(Thousand euro)

7.1 Description of the main movements

The development additions in 2023 relate mainly to capitalized personnel expenses for an amount of 6,693 thousand euro (5,518 thousand euro in 2022), the remainder being direct additions. That amount was materialized in several technology development projects that represent improvements to the product range manufactured by the Group, from which it expects to obtain future profits and positive results.

Development projects that had not been completed by year-end represented a 2,313 thousand euro amount as of December 31, 2023 and, therefore, have not yet started to be amortized (2,239 thousand euro in 2022).

7.2 Intangible assets located abroad

The Group has the following intangible assets located outside of Spain at 31 December:

	Thousand euro		
	Cost	Accumulated amortization	Net carrying amount
2023			
Development	8,032	(6,466)	1,566
Concessions	582	(370)	212
Patents, licenses and trademarks	551	(348)	203
Software	2,266	(1,979)	287
Other intangible assets	468	(62)	406
	11,899	**(9,225)**	**2,674**
2022			
Development	7,328	(5,871)	1,457
Concessions	614	(360)	254
Patents, licenses and trademarks	484	(393)	91
Software	2,210	(1,875)	335
Other intangible assets	501	(45)	456
	11,137	**(8,544)**	**2,593**

7.3 Fully-amortized intangible assets

As of December 31, 2023 there are intangible assets, still in use, and fully amortized with an accounting cost of 83,740 thousand euro (78,143 thousand euro at December 31, 2022). This amount corresponds mainly to development projects.

7.4 Insurance

The Company has taken out a number of insurance policies to cover risks relating to intangible assets. The coverage provided by these policies is considered to be sufficient.

(Thousand euro)

8. PROPERTY, PLANT AND EQUIPMENT

Details and movements in the various items that make up property, plant and equipment in the consolidated balance sheet for 2023 and 2022 are as follows:

	Thousand euro							
	Opening balance	**Hyperinflation Effect**	**Additions and allocations**	**Changes in the scope of consolidation (Note 2.4)**	**Deactivation**	**Transfers**	**Exchange differences**	**Closing balance**
2023								
Cost								
Land and buildings	15,226	1,064	3	-	-	40	(1,495)	14,838
Technical facilities and other property, plant and equipment	96,312	4,832	2,647	-	(201)	1,271	(6,210)	98,651
In-progress tangible assets and prepayments	4,093	-	4,238	-	-	(1,311)	247	7,267
	115,631	5,896	6,888	-	(201)	-	(7,458)	120,756
Accumulated amortization								
Construction	(6,925)	(306)	(446)	-	-	-	425	(7,252)
Technical facilities and other property, plant and equipment	(76,164)	(3,475)	(4,321)	-	101	-	5,269	(78,590)
	(83,089)	(3,781)	(4,767)	-	101	-	5,694	(85,842)
Net carrying amount	**32,542**							**34,914**

(Thousand euro)

	Thousand euro							
	Opening balance	Hyperinflation Effect	Additions and allocations	Changes in the scope of consolidation (Note 2.4)	Deactivation	Transfers	Exchange differences	Closing balance
2022								
Cost								
Land and buildings	14,290	1,158	125	(256)	-	180	(271)	15,226
Technical facilities and other property, plant and equipment	87,586	5,220	3,858	(2,027)	(13)	2,701	(1,013)	96,312
In-progress tangible assets and prepayments	3,694	-	3,118	(38)	-	(2,881)	200	4,093
	105,570	6,378	7,101	(2,321)	(13)	-	(1,084)	115,631
Accumulated amortization								
Construction	(6,418)	(302)	(478)	256	-	-	17	(6,925)
Technical facilities and other property, plant and equipment	(71,508)	(3,738)	(4,048)	1,899	1	-	1,230	(76,164)
	(77,926)	(4,040)	(4,526)	2,155	1	-	1,247	(83,089)
Net carrying amount	**27,644**							**32,542**

(Thousand euro)

The land value amounts to 1,310 thousand euro at December 31, 2023 (1,146 thousand euro at December 31, 2022).

8.1 Description of the main movements

The inclusions made in 2023 and 2022 were mainly due to the acquisition of technical facilities and machinery associated with the replacement and improvement of production processes, as well as the refurbishment of the new production plant in Turkey and the expansion of our production capacity in Mexico.

Of the total amount of personnel costs incurred in 2023, the Group has capitalized an amount of 87 thousand euro (424 thousand euro at December 31, 2022), recorded under the heading Work performed by the entity and capitalized, as found in the consolidated income statement. This amount is materialized in Plant and machinery, which accounts for improvements which are expected to yield benefits and positive results in the future.

8.2 Fully depreciated assets

At December 31, 2023, the company recorded buildings with an original cost of 1,101 thousand euro (1,101 thousand euro at December 31, 2022) that are fully depreciated and still in use. The cost of other fully depreciated property, plant and equipment in use amounts to 53,188 thousand euro (52,486 thousand euro at December 31, 2022).

8.3 Property, plant and equipment pledged to guarantees

As of December 31, 2023 and 2022 there are no items of property, plant and equipment subject to guarantees.

8.4 Assets under finance leases

The net book value of property, plant and equipment acquired under finance leases as of December 31 is as follows:

		Thousand euro	
	Cost	Accumulated amortization	Net carrying amount
2023			
Plant and machinery	1,654	(830)	824
Data-processing equipment	607	(480)	127
	2,261	**(1,310)**	**951**
2022			
Plant and machinery	1,466	(593)	873
Data-processing equipment	374	(235)	139
	1,840	**(828)**	**1,012**

The amount at which the assets being acquired under finance leases were initially recognized was the present value of the minimum payments to be made at the time the lease agreement was concluded.

(Thousand euro)

8.5 Assets under operating leases

The Group has leased industrial premises at which certain subsidiaries carry out their businesses, commercial offices in several cities, several warehouses for inventories, vehicles and, occasionally, certain machinery.

On 20 December 2012 the group company Inversiones Zabalondo, S.L. concluded a lease agreement with Orza Gestión y Tenencia de Patrimonio, A.I.E. covering Arteche group land and buildings located in Mungia. The initial term of the contract is 25 years from the date of signature, and may be extended for a maximum of two additional 5-year terms.

The expenses relating to the lease agreements have increased to 5,547 thousand euro (5,212 thousand euro in 2022) (Note 20.5).

The minimum future payments to be paid for the main irrevocable lease agreements at December 31 are as follows:

	Thousand euro	
	2023	**2022**
Up to one year	3,344	3,812
Between one and five years	11,734	12,718
More than five years	14,155	15,907
	29,233	**32,437**

8.6 Property, plant and equipment located abroad

Details of the property, plant and equipment located outside Spanish territory as of December 31 is as follows:

	Thousand euro		
	Cost	**Accumulated amortization**	**Net carrying amount**
2023			
Land and buildings	13,313	(6,108)	7,205
Technical facilities and other property, plant and equipment	44,225	(29,910)	14,315
In-progress tangible assets and prepayments	4,005	-	4,005
	61,543	**(36,018)**	**25,525**
2022			
Land and buildings	14,227	(6,053)	8,174
Technical facilities and other property, plant and equipment	43,376	(29,614)	13,762
In-progress tangible assets and prepayments	2,022	-	2,022
	59,625	**(35,667)**	**23,958**

(Thousand euro)

8.7 Purchase commitments

At December 31, 2023, the Group recognizes commitments to make investments in plant and other assets totaling 4,078 thousand euro (2,100 thousand euro at December 31, 2022).

8.8 Insurance

The Company has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

9. FINANCIAL ASSETS

Financial assets at December 31 is are analyzed below:

	Thousand euro					
	Equity instruments		Credits, derivatives and others		Total	
	2023	2022	2023	2022	2023	2022
Non-current financial assets						
Financial assets at fair value with changes in equity	178	245	-	-	178	245
Financial assets at amortized cost (Note 11)	-	-	1,201	1,384	1,201	1,384
Derivatives (Note 18.2)	-	-	246	1,347	246	1,347
	178	245	1,447	2,731	1,625	2,976
Current financial assets						
Financial assets at amortized cost (Note 11)	-	-	54,766	58,862	54,766	58,862
Derivatives (Note 18.2)	-	-	1,737	1,074	1,737	1,074
	-	-	56,503	59,936	56,503	59,936
	178	**245**	**57,950**	**62,667**	**58,128**	**62,912**

Financial assets at fair value with changes in equity

This category includes the shares issued by other companies in which the Company does not exercise control, jointly-control or have significant influence. In those where it has not been possible to calculate their value in a reliable manner due to an absence of sufficient available information, they have been recognized at their cost instead of at fair value.

The rest of the balance in the account mainly relates to shareholdings in reciprocal guarantee companies.

(Thousand euro)

10. INVENTORY

The composition of this consolidated balance sheet heading at December 31, 2023 and 2022 is as follows:

	Thousand euro	
	2023	**2022**
Goods for resale	563	398
Raw and sundry materials	35,289	32,937
Work in progress	16,264	15,975
Finished products	28,620	21,624
By-products, residues and materials recovered	268	286
Prepayments to suppliers	1,865	960
	82,869	**72,180**

The heading "Inventories" in the consolidated balance sheet is presented net of impairment adjustments.

Movements in impairment adjustments are as follows:

	Thousand euro	
	2023	**2022**
Opening balance	**3,705**	**3,483**
Transfers	482	-
Measurement adjustments during the year	2,130	555
Reversal	(407)	(437)
Exchange differences	313	104
Closing balance	**6,223**	**3,705**

The measurement adjustments applied to inventories record an estimate of the materials, production orders and prototypes that will not be subsequently used.

The Group has obtained insurance policies that guarantee the recovery of the carrying amount of its inventories.

At December 31, 2023, there are firm commitments to acquire raw materials totaling 16,502 thousand euro (21,953 thousand euro at 2022 year-end). Firm commitments to sell finished products and firm order portfolio at December 31, 2023 totaling 227,479 thousand euro (167,424 thousand euro at 2022 year-end).

(Thousand euro)

11. FINANCIAL ASSETS AT AMORTIZED COST

Details of the financial assets classified in this category at December 31 are as follows:

	Thousand euro	
	2023	**2022**
Non-current financial assets		
Loans to third parties	213	270
Other financial assets	988	1,114
	1,201	**1,384**
Current financial assets		
Trade and other receivables (except Public administrations)	52,417	56,631
Loans to companies	759	116
Other financial assets	1,590	2,115
	54,766	**58,862**

Other current and non-current financial assets

The balance included in this heading essentially consists of prepayments and security deposits provided at the time certain operating lease agreements were signed, as well as guarantees to secure work for customers. The amount to be recovered in the long-term has not been updated as it is not relevant.

The amount recorded in this category of current financial assets at December 31, 2023 and 2022 included in "Other current financial assets" relates mainly to deposits in euro amounting to 1,590 thousand euro (2,115 thousand euro at December 31, 2022) to guarantee certain obligations contracted with the financial institutions where the deposits were made. These assets are not remunerated, except for 250 thousand euro deposited in a fund with a 2.61% remuneration at the end of 2023.

Trade and other receivables

The breakdown of this heading as of December 31 is as follows:

	Thousand euro	
	2023	**2022**
Trade receivables for sales and services rendered	50,260	54,586
Sundry receivables	2,099	1,903
Personnel	58	142
	52,417	**56,631**

(Thousand euro)

In addition, the "Trade receivables for sales and services" account is presented net of impairment adjustments. The movements in these adjustments in 2023 and 2022 are as follows:

	Thousand euro	
	2023	**2022**
Opening balance	5,197	5,007
Allocation / Reversal for impairment of trade receivables	(59)	44
Cleared items	(706)	(140)
Consolidations /Deconsolidations	-	-
Exchange differences	508	286
Closing balance	**4,940**	**5,197**

The recognition and reversal of impairment losses on trade receivables have been included under "Losses, impairment and changes in trade provisions" in the consolidated income statement, which includes an amount of 43 thousand euro relating to the execution of a guarantee in 2023 (43 thousand euro in 2022).

The other accounts included in this heading are not impaired.

12. CASH AND OTHER CASH EQUIVALENTS

The breakdown of this heading as of December 31 is as follows:

	Thousand euro	
	2023	**2022**
Box	48	81
Demand current accounts	51,196	55,967
Bank deposits	9,516	165
	60,760	**56,213**

Current accounts accrue the market interest rate for this type of account. The balance denominated in foreign currency totals 32,156 thousand euro (28,606 thousand euro at December 31, 2022).

Bank deposits maintained in 2023 and 2022 essentially relate to interbank deposits with daily liquidity.

(Thousand euro)

13. SHAREHOLDERS' FUNDS

13.1 Issued capital

The share capital of the group's parent company consists of 57,094,013 fully subscribed and paid registered shares with a par value of 0.10 euro each at 31 December 2023. During 2023 and 2022, there have been no changes in capital stock.

As of December 31, 2023 and 2022, the shareholders which held over 5% of the capital stock were as follows:

	31.12.2023	31.12.2022
Ziskua Ber, S.L.	52.45%	52.45%
ECN Cable Group	20.21%	20.21%
Basque Fondo de Capital Riesgo	6.40%	6.40%
Onchena, S.L.	5.64%	5.63%

All shares, except treasury stock, have the same political and economic rights. The voting rights of treasury stock are suspended. The economic rights, with the exception of the rights of cost-free allocation of new shares, are attributed to the remaining shares in a proportional manner, pursuant to the regulations stipulated by Article 148 of the Capital Companies Act. All of the Company's shares are listed on the BME MTF Equity BME Growth segment (multilateral trading system). There are no free transfer restrictions.

The listed share value of the Parent Company, Arteche Lantegi Elkartea, S.A., listed on BME Growth, amounted to 4.00 euro at December 31, 2023.

13.2 Share premium

The share premium account may be used to increase share capital and there is no specific restriction as to the availability of this balance.

13.3 Reserves

By the end of 2023 and 2022, the breakdown of Reserves is as follows:

	Thousand euro	
	2023	2022
Legal reserve	1,142	1,142
Voluntary reserves	93,138	86,573
Total Parent Company reserves	**94,280**	**87,715**
Reserves in fully consolidated companies	(38,541)	(40,196)
Reserves in proportionally consolidated companies	(8,638)	(9,923)
Reserves in equity consolidated companies	(1,193)	(1,193)
Total reserves in consolidated companies	**(48,372)**	**(51,312)**
Total reserves	**45,908**	**36,403**

Legal reserve

A provision to the legal reserve has been made in accordance with Article 274 of the revised Capital Company Act, which establishes that, in any case, an amount equal to 10% of the yearly income will be transferred to the legal reserve until it amounts to at least 20% of the capital stock. As of December 31, 2023 and 2022, the legal reserve is fully funded.

In accordance with the Spanish Limited Liability Companies Act, until the legal reserve exceeds the minimum limit of 20% of share capital, it may not be distributed to shareholders and may only be used to offset losses in the event that no other company reserves are available.

The legal reserve may be used to increase share capital to the extent that it exceeds 10% of the increased share capital.

Voluntary reserves of the Parent Company

As of December 31, 2023, the Parent Company's income statement displays fully amortized development expenses. In accordance with commercial legislation, no dividends may be distributed unless the amount of available reserves is at least equal to the amount of development expenses stated on the asset side of the balance sheet.

13.4 Distributed dividends

On July 6, 2023, the Parent Company distributed a final dividend of 2,306 thousand euro, charged to 2022 results, as approved by the General Meeting of Shareholders of May 5, 2023.

In addition, on July 6, 2022, the Parent Company distributed a final dividend with a charge to 2021 results in the amount of 2,563 thousand euro, as approved by the General Meeting of Shareholders of May 11, 2022.

13.5 Treasury stock and equity interests

The Ordinary General Meeting of Shareholders of 2021 authorized the Board of Directors of the Parent Company to acquire its own shares in the secondary market for its treasury stock. Within the framework of this office, the Board of Directors authorized the execution of a liquidity agreement, of which the market was informed through a notification under Other Relevant Information sent to BME Growth, dated March 7, 2022. For the implementation of the aforementioned agreement, a treasury stock transaction was carried out, which allowed for the deposit of a total of 1,346 shares to the Financial Intermediary's securities account. In accordance with current legislation, the Parent Company periodically submits a detailed report of the transactions carried out under the aforementioned agreement to BME Growth .

In 2023, there were movements in the purchase and sale of treasury stock under the contract with the Liquidity Facility. The difference between the cost price and the sale price, amounting to 42 thousand euro, has been recorded under "Voluntary reserves" (0 thousand euro in 2022).The treasury stock movement is as follows:

(Thousand euro)

	Thousand euro		Share number	
	2023	2022	2023	2022
As of January 1	**503**	**375**	**136,330**	**134,712**
Acquisition of treasury stock	505	372	121,251	107,932
Sale of treasury stock	(503)	(244)	(116,200)	(106,314)
Capital reduction	-	-	-	-
As of December 31	**505**	**503**	**141,381**	**136,330**

14. PROFIT/(LOSS) FOR THE YEAR

The distribution proposal of the net profit/(loss) for 2023 that the Board of Directors of the parent company will propose for approval by the shareholders at the Annual General Meeting is as follows:

	Thousand euro	
	2023	2022
Distribution basis		
Balance in the profit and loss accounts	6,886	4,443
	6,886	**4,443**
Distribution		
To voluntary reserves	854	2,137
To legal reserve	-	-
To dividends	6,032	2,306
	6,886	**4,443**

By virtue of certain loan contracts that the Group has entered into (Note 18.1) there is a limit to the distribution of dividends to shareholders, corresponding to 25%, 30% or 50% of the net consolidated profit, depending on the level of compliance with the Net Financial Debt / EBITDA ratio.

15. MEASUREMENT ADJUSTMENTS

15.1 Exchange differences of consolidated companies

The movements recorded in the 2023 and 2022 "Exchange differences of consolidated companies" account relate mainly to the translation of amounts at year-end.

(Thousand euro)

15.2 Hedging transactions

The breakdown and movements in hedging transactions are as follows:

	Thousand euro		
	Opening balance	Variation In value	Closing balance
2023			
Cash flow hedges	2,150	(425)	1,725
Tax effect	(594)	145	(449)
	1,556	**(280)**	**1,276**
2022			
Cash flow hedges	(115)	2,265	2,150
Tax effect	4	(598)	(594)
	(111)	**1,667**	**1,556**

The information regarding the derivative financial instruments relating to these hedge transactions are included in Note 18.2.

16. NON-CONTROLLING INTERESTS

Movements under this heading during 2023 and 2022 are as follows:

	Thousand euro	
	2023	2022
January 1	6,178	5,712
Attributable profit / (loss) for the year	774	646
Exchange differences	(361)	(202)
Hedging transactions	(6)	(7)
Other	21	29
December 31	**6,606**	**6,178**

(Thousand euro)

The composition of this account by company and item at the year-end is as follows:

	Thousand euro						
	Issued capital	**Negative results from prior years**	**Profit/(loss) for the year**	**Hedging transactions**	**Other items**	**Exchange differences**	**Total**
2023							
Arteche DYH Electric Co., Ltd.	4,754	(24)	805	1	-	877	6,413
Arteche Inael, S.L.	786	(67)	(30)	-	-	-	689
Arteche Inael Industrial Eléctrica, Ltda.	-	(540)	(1)	-	-	45	(496)
	5,540	**(631)**	**774**	**1**	**-**	**922**	**6,606**
2022							
Arteche DYH Electric Co., Ltd.	4,754	(673)	637	7	(18)	1,207	5,914
Arteche Inael, S.L.	786	(67)	-	-	-	-	719
Arteche Inael Industrial Eléctrica, Ltda.	-	(537)	(2)	-	-	84	(455)
	5,540	**(1,277)**	**635**	**7**	**(18)**	**1,291**	**6,178**

17. PROVISIONS AND CONTINGENCIES

Details of non-current and current provisions at December 31, 2023 and 2022 are as follows:

	Thousand euro		
	Non-current	**Current**	**Total**
2023			
Social security obligations	1,458	142	1,600
Provision for contingencies and other risks	1,609	385	1,994
	3,067	**527**	**3,594**
2022			
Social security obligations	1,308	141	1,449
Provision for contingencies and other risks	816	735	1,551
	2,124	**876**	**3,000**

(Thousand euro)

Movements in the accounts under the heading Non-current provisions are as follows:

	Thousand euro					
	Opening balance	Allocations	Applications and payments	Transfers	Exchange differences	Closing balance
2023						
Social security obligations (Note 4.21)	1,308	203	(117)	-	64	1,458
Provision for contingencies and other risks	816	1,413	(248)	-	(372)	1,609
	2,124	**1,616**	**(365)**	**-**	**(308)**	**3,067**
2022						
Social security obligations (Note 4.21)	1,004	186	-	118	-	1,308
Provision for contingencies and other risks	934	-	(96)	-	(22)	816
	1,938	**186**	**(96)**	**118**	**(22)**	**2,124**

The contingencies and other risks provision refers to:

- The provision for labor contingencies in the Brazilian subsidiaries, for an amount of 427 thousand euro (73 thousand euro as of December 31, 2022).
- The provisions set aside to hedge other risks in the AIT, S.A. subsidiary in relation to the Electroingeniería ICSSA-AIT joint venture (UTE) and Elmya Arteche Limited, amounting to 158 thousand euro (250 thousand euro at 31 December 2022) and 17 thousand euro, respectively (17 thousand euro at 31 December 2022).

In addition, this caption includes provisions for those obligations arising mainly from claims, litigation and arbitration, among other liabilities, which in no case represent significant isolated amounts.

In 2023, the increase in provisions is related to various provisions covering possible contingencies and other risks for its Brazilian subsidiary.

The applications that took place in 2022 were due to payments made to ensure Elmya Arteche Limited's financial position and to exchange rate differences.

By the 2023 and 2022 year-end and in relation to the remaining labor and tax claims, the Group considers that no significant contingency will arise from their resolution, and therefore no additional provision has been recorded.

(Thousand euro)

18. FINANCIAL LIABILITIES

Details of non-current and current financial liabilities as of December 31, 2023 and 2022 are as follows:

	Thousand euro					
	Bank borrowings		Derivatives and Other		Total	
	2023	2022	2023	2022	2023	2022
Long-term financial liabilities						
Financial liabilities at amortized cost	39,343	26,197	27,532	36,132	66,875	62,329
Hedging derivatives	-	-	-	-	-	-
	39,343	**26,197**	**27,532**	**36,132**	**66,875**	**62,329**
Short-term financial liabilities						
Financial liabilities at amortized cost	16,052	12,642	148,479	153,892	164,531	166,534
Hedging derivatives	-	-	317	1,138	317	1,138
	16,052	**12,642**	**148,796**	**155,030**	**164,848**	**167,672**
	55,395	**38,839**	**176,328**	**191,162**	**231,723**	**230,001**

These amounts are broken down in the balance sheet as follows:

	Thousand euro					
	Bank borrowings		Derivatives and Other		Total	
	2023	2022	2023	2022	2023	2022
Non-current financial liabilities						
Non-current creditors	39,267	26,138	-	-	39,267	26,138
Derivatives	-	-	-	-	-	-
Creditors for finance lease	76	59	-	-	76	59
Other liabilities	-	-	27,532	36,132	27,532	36,132
	39,343	**26,197**	**27,532**	**36,132**	**66,875**	**62,329**
Current financial liabilities						
Liabilities and other negotiable securities	-	-	13,800	26,000	13,800	26,000
Current creditors	15,925	12,531	13,507	17,750	29,432	30,281
Derivatives	-	-	317	1,138	317	1,138
Creditors for finance lease	127	111	-	-	127	111
Trade and other payables (except public administrations)	-	-	121,172	110,142	121,172	110,142
	16,052	**12,642**	**148,796**	**155,030**	**164,848**	**167,672**
	55,395	**38,839**	**176,328**	**191,162**	**231,723**	**230,001**

(Thousand euro)

18.1 Bank borrowings

The detail as of December 31, 2023 and 2022 is as follows:

	Million euro	
	2023	2022
Syndicated Loan	14.6	19.5
Other bank loans	39.8	16.4
Credit lines	0.7	2.4
Other (including finance leases)	0.3	0.5
	55.4	**38.8**

The total amount of bank borrowings denominated in foreign currency is 358 thousand euro (2387 thousand euro at December 31, 2022), primarily U.S. dollars, Mexican pesos and Argentinian pesos.

Bank borrowings and credit facilities

The Parent Company entered into a syndicated loan in 2015, which was renewed in December 2017, January 2021 and September 2022. The amount drawn down from the syndicated loan was of 14,627 thousand euro (14,300 thousand euro at amortized cost) at December 31, 2023 (19,503 thousand euro in 2022), of which 4,876 thousand euro (4876 thousand euro in 2022) falls due in the short-term. Several Group companies are guarantors for this loan.

The applicable interest rate is Euribor plus a margin that is determined based on compliance with certain ratios (including ESG goals). The Company contracted a cap at a 0% strike level to hedge the variations of the Euribor on half of the nominal amount pending amortization (Note 18.2).

At all times over the life of the credit agreement the parent company must meet a series of ratios calculated based on the Group's consolidated annual accounts. Non-compliance with the ratios is cause for the early termination of the agreement. The Company’s directors consider that these ratios were met in 2022 and 2023.

Furthermore, additional loans were arranged during 2020, providing the group with the financial stability necessary to fulfill all its commitments, the most noteworthy of which were the loans from financial entities guaranteed by the Instituto de Crédito Oficial for a balance of 7.8 thousand euro at December 31, 2023 (10.9 million euro at December 31, 2022), maturing in 2026.

During 2023, the group signed various loans with different banking entities totaling 29.4 million euro, and which are to mature between 2028 and 2029, some of which include ESG goals under compliance with certain KPIs aimed at ensuring that electricity consumption comes from renewable sources, as well as promoting the reuse of waste generated in the manufacturing process.

All loans drawn down, both bank and non-bank, have their final maturity falling between 2025 and 2030 and an average interest rate of approximately 4.25% at December 31, 2023.

(Thousand euro)

Details by due date of the items recognized under Non-current bank borrowings at the end of 2023 are as follows:

	2025	2026	2027	2028 and afterwards	Total
Bank borrowings	14,865	12,792	6,811	4,799	39,267
	14,865	**12,792**	**6,811**	**4,799**	**39,267**

18.2 Derivative and other financial instruments

Details of the financial liabilities classified in this category as of December 31 are as follows:

	Thousand euro	
	2023	2022
Non-current		
Other financial liabilities		
Repayable advances	1,057	1,598
Loans	26,475	34,525
Other payables	-	9
	27,532	**36,132**
Current		
Liabilities and other negotiable securities	13,800	26,000
Derivatives, hedging instruments	317	1,138
Other financial liabilities		
Repayable advances	460	531
Loans	8,050	7,250
Asset suppliers	4,492	3,127
Other payables	505	6,842
Trade and other payables (except Public Administrations)	121,172	110,142
	148,796	**155,030**

Derivatives

The breakdown of derivatives at December 31 is as follows:

	Thousand euro			
	Notional		Fair value	
	2023	2022	2023	2022
Interest rate swaps and options on variable rate loans	31,813	43,105	1,033	1,774
Exchange hedges for US dollar denominated receivables	28,992	16,166	631	410
Exchange hedges for euro denominated receivables	2,688	3,511	2	71
Exchange hedges for Turkish lira denominated receivables	-	4,072	-	(997)
Exchange hedges for Indonesian rupiahs denominated receivables	-	234	-	25
	63,493	**67,088**	**1,666**	**1,283**

The notional amount of derivative financial instruments designated as hedging transactions does not represent a Group risk, as its net position was obtained from offsetting /combining the instruments.

(Thousand euro)

The fair values of these financial instruments, calculated based on the effective cash flow discount method, using interest rate curves and future exchange rates, are reflected in financial assets and liabilities at 31 December as follows:

	Thousand euro	
	2023	**2022**
Non-current borrowings - Derivatives	246	1,347
Current borrowings - Derivatives	1,737	1,074
Non-current creditors - Derivatives	-	-
Current creditors - Derivatives	(317)	(1,138)
	1,666	**1,283**

The Parent Company regularly obtains hedges to cover the risk of interest rate and exchange rate variations. The conditions for the hedge instrument and the hedged instrument coincided at 31 December 2022 and 2023 and therefore the hedge was effective.

In 2022 several derivative instruments were contracted to hedge the risk of changes in the variable interest rate for (i) the amount corresponding to the first two drawdowns on the Parent Company's loan with the EIB for a total nominal amount of 15,000 thousand euro; (ii) 50% of the nominal amount pending repayment of the syndicated loan at the date the derivative was contracted, i.e. 12,189 thousand euro, and (iii) the 16,000 thousand euro still pending repayment as of 2023 corresponding to the loan the Company has taken out with the ICO.

The structure contracted was an IRS for the first two EIB drawings and for the ICO loan, while the option chosen for the syndicated loan was a 0% strike level CAP loan. All hedges have been taken out with banks from the Parent Company's banking pool.

The counterparties to the derivatives are banks of accredited solvency.

The maturity distribution for the cash flows expected to occur and affect the income statement are as follows:

	Thousand euro	
	2023	**2022**
Short-term	1,420	(64)
Long-term (final maturity in 2028)	246	1,347
	1,666	**1,283**

Liabilities and other negotiable securities

On October 29, 2020, the Parent company of the Group, Arteche Lantegi Elkartea, S.A., placed a commercial paper program on the MARF with a maximum limit of 50 million euros. The duration of the program known as "Arteche Commercial Paper Program 2020" is for one year. This program was renewed in October 2023. The range of interest rates at which the Company issued promissory notes during 2023 ranged from 3.10% to 5.30% (between 0.4% and 3.35% in 2022), with 1-6 month terms (1-9 months in 2022). The total amount of promissory notes issued during 2023 amounted to 63.0 million euro (83.3 million euro in 2022), of which, as of December 31, 2023, promissory notes for euro 13.8

(Thousand euro)

million (euro 26.0 million in 2022) were outstanding, reflected under the "Liabilities and other negotiable securities" heading.

Other financial liabilities - Repayable advances

Repayable prepayments relate to repayable loans and prepayments provided by several public entities to assist with the development of certain Arteche Group research and development projects taken on individually or together with collaborating companies, and the financing of new software. In general, these prepayments do not accrue any interest whatsoever. In accordance with the accounting policy described in Note 4.17, those prepayments are presented net of the embedded grants equivalent to the difference between the fair value of the prepayment and its restated value calculated at the effective cost of outside borrowings on the date on which it is received.

Other financial liabilities - Loans

The breakdown of the main loans as of December 31, 2023 and 2022 is as follows:

	Thousand euro	
	2023	**2022**
European Investment Bank (EIB)	17,400	19,900
Cofides (granted to Arteche Lantegi Elkartea, S.A.)	4,000	4,000
Cofides (granted to Arteche North America, S.A. de CV)	1,125	1,875
Instituto de Crédito Oficial (ICO)	12,000	16,000
	34,525	**41,775**

On December 19, 2019, a credit line was entered into with the European Investment Bank (EIB) for 27,000 thousand euro, for the purpose of co-financing the Group's investments in Europe for the 2020-2023 term.

As of December 31, 2023, the amount drawn down on this loan was 17.4 million euro, with the last installment maturing in June 2030. As of December 31, 2022, the amount drawn down amounted to 19.9 million euro. This loan is subject to compliance with certain financial ratios. The Parent Company's directors estimate that they will be met by December 31, 2023 and 2022.

Likewise, in 2020, the Instituto de Crédito Oficial (ICO) endorsed our R+D+i plan and its fit with the guidelines set by the European Union in the field of Innovation and Sustainability, granting us long-term (6 years) and flexible financing for the amount of 20 million euro to tackle the upcoming investment plans.

The amount drawn down on this loan at December 31, 2023 amounted to 12 million euro, of which 4 million euro mature in the short term (the amount drawn down at December 31, 2022 was 16 million euro, of which 4 million euro matured in the short term).

Likewise, in 2020 a 3 million euro loan was signed with Cofides, with a one-year grace period and four-year amortization period for the expansion of the Medium Voltage plant in Tepeji del Rio in Mexico. The amount drawn down at December 31, 2023 amounts to 1.1 million euro (1.9 million euro in 2022).

In July 2021, Arteche Lantegi Elkartea, S.A. signed a new contract with Cofides for 4.0 million euro, with a 6-month Euribor variable interest rate and maturity in 2028, so as to partially finance the purchase of the company Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi. The amount drawn down at December 31, 2023 amounts to 4.0 million euro (4 million euro at December 31, 2022).

(Thousand euro)

In July 2023, Arteche North America, S.A. de C.V. and Arteche Lantegi Elkartea, S.A. signed two loans with Cofides for the amounts of 5.9 and 3.9 million euro respectively, which remain fully undrawn as of December 31, 2023 and have an amortization period of 7 years. These loans include certain commitments to comply with environmental KPI's aimed at ensuring renewable source electricity usage and CO2 emissions reduction, which, if complied with, would result in an improvement in the applicable interest rate.

In December 2023, the Company signed a new loan with the EIB for a 29 million euro amount, which as of December 31, 2023 remains fully undrawn and has a repayment period of 8 years from the drawdown date. The purpose of this loan is to co-finance the group's investments in Europe over the 2024-2027 period.

The breakdown of this account by non-current due date at 31 December is as follows:

	Thousand euro	
	2023	**2022**
2024	-	8,050
2025	8,491	8,491
2026	8,117	8,117
2027	4,117	4,117
2028 and afterwards	5,750	5,750
	26,475	**34,525**

Other current and non-current debts

The amounts recorded under these headings encompassed December 31, 2022 and refered mainly to amount payable to the former owners of the companies Esitaş Elektrik Sanayi ve Ticaret and PT Esitaş Pacific as a result of their purchase.

(Thousand euro)

Information regarding the average payment period for suppliers. Additional Provision Three. "Disclosures" established by Law 15/2010, of July 5

The information on the average supplier payment period for the years 2023 and 2022 for Spanish companies is as follows:

	Days	
	2023	2022
Average payment period for suppliers	85	81
Ratio of transactions paid	87	86
Ratio of transactions pending payment	80	69

	Thousand euro	
	2023	2022
Total payments made	129,043	120,526
Total pending payments	44,623	43,783
Total amount of invoices paid	129,043	120,526
Amount of invoices paid within the legal term	40,515	40,618
%	31%	34%
Total number of invoices paid	31,482	28,351
Total number of invoices paid within the legal term	12,514	9,882
%	40%	35%

19. FISCAL SITUATION

19.1 Public Administration balances

The breakdown of the tax assets and liabilities as of December 31, 2023 and December 31, 2022 is as follows:

	Thousand euro	
	31.12.2023	31.12.2022
Debit balance		
Non-current receivables from public administrations	1,268	1,218
Deferred tax assets	25,051	22,806
Other receivables from public administrations	20,154	21,749
Withholdings and interim payments	2,871	3,442
Value-Added Tax and others:	16,814	17,927
Social Security	469	380
	46,473	**45,773**
Credit balances		
Deferred tax liabilities	(3,356)	(3,936)
Current tax liabilities	(3,755)	(2,267)
Other payables to Public Administrations	(11,414)	(11,197)
Personal income tax withholdings	(1,834)	(1,683)
Social Security	(1,909)	(1,639)
VAT	(7,671)	(7,875)
	(18,525)	**(17,400)**

(Thousand euro)

19.2 Corporate income tax calculation

The parent company and some domestic investee companies included in the scope of consolidation, as indicated in Note 4.18, file consolidated corporate income tax returns. That group applies this system indefinitely, as long as it complies with the established requirements or does not expressly waive its right to apply the system by filing the relevant tax form.

The remaining domestic investee and foreign companies file individual tax returns, pursuant to their respective tax laws.

Due to the fact that certain operations are treated differently for tax and reporting purposes (in each country), book results differ from taxable income.

For 2023 and 2022, corporate income tax expense/(income) from continuing operations breaks down as follows:

	Thousand euro			
	Consolidated profit and loss account		Directly charged to consolidated equity	
	31.12.2023	**31.12.2022**	**31.12.2023**	**31.12.2022**
Current year tax	5,260	3,213	-	-
Change in deferred taxes	(2,580)	(1,530)	172	(812)
Regularization of current corporate income tax for the previous year, withholdings and other	65	646	-	-
Hyperinflation effect	(323)	124	-	-
Tax expense from continuing operations	**2,422**	**2,453**	**172**	**(812)**
Total tax expenses	**2,422**	**2,453**	**172**	**(812)**

19.3 Reconciliation of accounting income to taxable income

Due to the different accounting / tax consideration that certain transactions have for corporate income tax purposes, the taxable income (taxable income) for the year is different from the accounting income. The reconciliation between the accounting result and the taxable income for income tax purposes is as follows:

(Thousand euro)

	Thousand euro	
	31.12.2023	**31.12.2022**
Consolidated income before taxes		
Consolidated income before taxes from going concerns	15,259	10,785
Permanent differences	(25,301)	(12,327)
Temporary differences		
Originating in the fiscal year	6,262	3,166
Arising from prior years	(2,141)	(907)
Offsetting of used carry-forward tax loss of previous fiscal years	(417)	-
Offsetting of unused carry-forward tax loss of previous fiscal years	(4,334)	(3,062)
Consolidation adjustments	(454)	(140)
Taxable income	**(11,126)**	**(2,486)**
Elimination of tax consolidation dividends	24,259	11,287
Tax consolidation eliminations portfolio impairment	-	-
Other tax consolidation adjustments	(1,926)	(5,431)
Adjusted taxable income	**11,207**	**3,370**

The permanent differences in 2023 and 2022 mainly correspond to dividends distributed by the Group's subsidiaries. The temporary differences in 2023 and 2022 mainly correspond to non-deductible provisions and the limitation on the deductibility of financial expenses.

19.4 Reconciliation of accounting income to income tax expense

The reconciliation between the income tax that would result from applying the nominal corporate income tax rate in force for the parent company and the income tax expense recorded in the consolidated income statement for 2023 and 2022 is presented below:

	Thousand euro	
	31.12.2023	**31.12.2022**
Consolidated income before taxes	**15,259**	**10,785**
Tax expense at the parent company's tax rate	3,662	2,588
Net permanent differences	(6,072)	(2,959)
Effect of consolidation differences	5,238	1,404
Effect of the application of different tax rates	(705)	(205)
Adjustments to prior years' taxes	(128)	(54)
Tax paid abroad	927	524
Impairment due to the Technical Review Panel (TRP) process	-	(200)
Deductions and tax losses carried forward	191	1,040
Other adjustments	(691)	315
Income tax expense / (income)	**2,422**	**2,453**

19.5 Deferred tax assets and liabilities

(Thousand euro)

The breakdown of movements in items making up deferred tax assets and liabilities are as follows:

	Opening balance	Hyperinflation Effect (Note 2.5)	Consolidated profit and loss account	Consolidated equity	Other movements	Scope inflow and outflow (Note 2.4)	Exchange differences	Closing balance
	Thousand euro – Variations reflected in							
2023								
Deferred tax assets								
Tax deductions	14,682	-	-	-	-	-	-	14,682
Tax losses carried forward	2,095	-	783	-	(21)	-	(30)	2,827
Cash flow hedges	7	-	-	34	-	-	-	41
Other - temporary differences	6,022	49	1,275	-	(22)	-	177	7,501
	22,806	49	2,058	34	(43)	-	147	25,051
Deferred tax liabilities								
On business combinations	(1,162)	-	99	-	-	-	37	(1,026)
Grants	(609)	-	-	28	-	-	-	(581)
Cash flow hedges	(521)	-	-	37	-	-	(6)	(490)
Other	(1,644)	(204)	422	-	-	-	167	(1,259)
	(3,936)	(204)	521	65	-	-	198	(3,356)
	18,870	**(155)**	**2,579**	**99**	**(43)**	**-**	**345**	**21,695**

	Opening balance	Hyperinflation Effect (Note 2.5)	Consolidated profit and loss account	Consolidated equity	Other movements	Group scope inflows (Note 2.4)	Exchange differences	Closing balance
	Thousand euro – Variations reflected in							
2022								
Deferred tax assets								
Tax deductions	14,896	-	(11)	-	-	(203)	-	14,682
Tax losses carried forward	1,497	-	862	-	-	(219)	(45)	2,095
Cash flow hedges	1	-	-	6	-	-	-	7
Other - temporary differences	5,678	(269)	439	-	-	(40)	214	6,022
	22,072	(269)	1,290	6	-	(462)	169	22,806
Deferred tax liabilities								
On business combinations	(913)	-	93	-	-	(374)	32	(1,162)
Grants	(582)	-	-	(33)	-	6	-	(609)
Cash flow hedges	(191)	-	-	(305)	-	-	(25)	(521)
Other	(1,235)	(592)	147	-	-	-	36	(1,644)
	(2,921)	(592)	240	(338)	-	(368)	43	(3,936)
	19,151	**(861)**	**1,530**	**(332)**	**-**	**(830)**	**212**	**18,870**

The Group records deductions that have yet to be applied at December 31, 2023 in the amount of 31,684 thousand euro (30,181 thousand euro at December 31, 2022). It has recognized the relevant deferred tax asset in this respect for an amount of 14,682 thousand euro (14,682 thousand euro at December 31, 2022). The deductions break down as follows:

(Thousand euro)		**Total deductions**	
Generation exercise	**Year limit for offsetting**	**2023**	**2022**
1999	30 years *	581	581
2000	30 years *	754	754
2001	30 years *	952	952
2002	30 years *	687	687
2003	30 years *	788	788
2004	30 years *	1,070	1,070
2005	30 years *	1,236	1,236
2006	30 years *	860	860
2006	18 years	132	132
2007	30 years *	526	526
2007	18 years	118	118
2008	30 years *	1,610	1,610
2008	18 years	143	143
2009	30 years *	1,929	1,929
2009	18 years	71	71
2010	30 years *	1,739	1,761
2010	18 years	97	97
2011	30 years *	2,259	2,489
2011	18 years	176	176
2012	30 years *	2,296	2,300
2012	18 years	731	731
2013	30 years *	2,175	2,175
2013	18 years	104	104
2014	30 years *	2,042	2,042
2014	18 years	235	235
2015	30 years *	739	739
2015	18 years	32	32
2016	30 years *	1,106	1,106
2016	18 years	4	4
2017	30 years *	1,328	1,328
2017	18 years	4	4
2018	30 years *	705	705
2018	18 years	69	69
2019	30 years *	581	581
2019	18 years	78	78
2020	30 years *	750	750
2020	18 years	46	46
2021	30 years *	1,146	1,146
2021	18 years	26	26
2022	30 years *	1,274	-
2022	18 years	4	-
2023	30 years *	485	-
(**)		**31,688**	**30,181**

(*) Compensation period for taxable income and rebates as of 12.31.2013: 30 years from 01.01.2014. 5th and 22nd Transitional Provision of the local regulations on Corporate Income Tax Law.
(**) Deductions for fiscal year 2023 are not included except for the deduction for international double taxation.

(Thousand euro)

The rights to the deductions that have yet to be applied essentially originate from investments in new property, plant and equipment, export activities and in research and development projects.

At December 31, 2023, the Group has unused tax losses which, taking future forecasts into account, have an active tax credit in the amount of 2,827 thousand euro (2,095 thousand euro in 2022) The breakdown of total tax credits is as follows:

		Thousand euro	
		Tax credit	
Generation exercise	**Year limit for offsetting**	**31.12.2023**	**31.12.2022**
2010	30 years *	324	324
2011	30 years *	157	157
2011	Unlimited	-	98
2012	30 years *	443	456
2012	Unlimited	613	657
2013	30 years *	2,423	2,727
2013	Unlimited	1,799	1,731
2014	30 years *	1,484	1,856
2014	Unlimited	3,107	3,108
2015	30 years	102	102
2015	Unlimited	2,314	2,242
2016	30 years	2,105	2,105
2016	Unlimited	2,019	1,986
2017	30 years	874	874
2017	Unlimited	428	450
2018	30 years	6,063	6,063
2018	Unlimited	480	482
2018	10 years	-	-
2019	30 years	535	535
2019	Unlimited	300	295
2019	10 years	-	-
2020	30 years	12	12
2020	Unlimited	765	756
2021	5 years	4	61
2021	10 years	861	984
2021	12 years	34	28
2021	Unlimited	1,011	183
2022	30 years	751	751
2022	Unlimited	617	311
2022	5 years	178	840
2022	12 years	13	11
2023	30 years	42	-
2023	Unlimited	344	-
2023	5 years	953	-
		31,155	**30,185**

(*) Compensation period for taxable income and rebates as of 12.31.2013: 30 years from 01.01.2014. Transitional Provision No. 5 and 22. Local Regulation on Corporate Income Tax.

(Thousand euro)

The group companies have estimated the tax benefits that they expect to obtain over the coming years in accordance with their budgets. The reversal of taxable temporary differences was also analyzed during the year Based on this analysis, the group companies have recorded deferred tax assets relating to the tax-loss carryforwards yet to be offset, deductions yet to be applied and the temporary deductible differences for which they consider it likely that sufficient profits will be generated in the future.

19.6 Fiscal years pending verification and inspection activities

According to the legal provisions in force, tax assessments cannot be considered final until they have been inspected by the tax authorities or the statute of limitations period established by law (4 or 5 years depending on the tax domicile of the Group companies) has elapsed. The Group currently holds tax audits open in several jurisdictions, especially in Brazil. The Group does not expect any significant additional liabilities to arise as a result of the review of the fiscal years under inspection or of the ongoing inspections in the various jurisdictions.

20. INCOME AND EXPENSES

20.1 Operating profit/(loss) by business segment

Details of the consolidated profit/(loss) for 2023 and 2022 for each of the business units where the Group operates are as follows:

	Measuring & Monitoring Systems	Automation of Transmission and Distribution Networks	Network reliability	Total
2023				
Revenues	277,469	77,930	45,857	401,256
Changes in inventories	9,195	97	973	10,265
Work performed by the entity and capitalized	2,898	3,489	393	6,780
Supplies	(155,226)	(36,898)	(35,384)	(227,508)
Other operating income	1,401	663	(28)	2,036
Personnel costs	(69,163)	(21,734)	(7,893)	(98,790)
Other operating expenses	(40,067)	(10,689)	(3,444)	(54,200)
Depreciation and amortization	(8,918)	(4,962)	(738)	(14,618)
Grant allocations	353	326	-	679
Impairment and results on disposals of assets	(170)	(751)	517	(404)
Loss of control result	-	-	-	-
Other gains or losses	(1,054)	(338)	136	(1,256)
Operating profit/(loss)	**16,718**	**7,133**	**389**	**24,240**

(Thousand euro)

	Measuring & Monitoring Systems	Automation of Transmission and Distribution Networks	Network reliability	Total
2022				
Revenues	251,632	65,093	29,178	345,903
Changes in inventories	4,894	(1,251)	(2,449)	1,194
Work performed by the entity and capitalized	3,184	2,588	170	5,942
Supplies	(151,932)	(27,769)	(17,875)	(197,576)
Other operating income	2,384	448	69	2,901
Personnel costs	(59,964)	(18,805)	(4,742)	(83,511)
Other operating expenses	(37,969)	(8,360)	(3,137)	(49,466)
Depreciation and amortization	(8,794)	(5,221)	(652)	(14,667)
Grant allocations	333	301	-	634
Impairment and results on disposals of assets	(25)	-	-	(25)
Loss of control result	3,055	-	-	3,055
Other gains or losses	(3)	(10)	(49)	(62)
Operating profit/(loss)	**6,795**	**7,014**	**513**	**14,322**

Balance sheet segmentation is not disclosed as it is not regularly submitted to the Board of Directors.

20.2 Revenues

The distribution of the Group's revenues relating to continuing operations by geographic market at December 31, 2023 and 2022 is as follows:

	Thousand euro	
	2023	**2022**
Segmentation by geographical market		
Spain	66,407	61,320
Europe, Africa and Middle East	85,236	75,584
North America	140,525	115,353
Mercosur	61,942	46,481
Asia	47,146	47,165
	401,256	**345,903**

20.3 Supplies

Details under this heading as of December 31, 2023 and 2022 are as follows:

	Thousand euro	
	2023	**2022**
Purchases	205,286	184,453
Subcontracted work	21,231	19,075
Impairment of goods purchased for resale, raw materials and others	524	306
Changes in inventories	468	(6,258)
	227,508	**197,576**

(Thousand euro)

20.4 Personnel costs

Details under the “personnel costs” heading as of December 31, 2023 and 2022 are as follows:

	Thousand euro	
	2023	2022
Wages, salaries and similar remuneration		
Wages and salaries	76,309	65,365
Social security		
Social Security	16,353	14,408
Other social expenses	6,128	3,738
	22,481	18,146
	98,790	**83,511**

The people employed by the Arteche Group, distributed by professional category and gender, are as follows:

	Number of employees at the end of the year			Average number of employees during the year
	Men	Women	Total	
2023				
Direct	1,402	430	1,832	1,834
Indirect	668	306	974	972
	2,070	**736**	**2,806**	**2,806**
2022				
Direct	1,363	380	1,743	1,599
Indirect	639	306	945	977
	2,002	**686**	**2,688**	**2,576**

The average number of employees during the year at Arteche Group that had a disability equal to or exceeding 33% is as follows:

	2023	2022
Direct	16	15
Indirect	14	9
	30	**24**

As of December 31, 2023, the Board of Directors is composed of 2 legal entities (whose representatives were individuals, 2 men in 2023 and 2 men in 2022) and 7 individuals, 6 men and 1 woman (6 individuals, 6 men in 2022). At December 31, 2023, there were 9 men and 3 women (9 men and 2 women as of December 31, 2022).

(Thousand euro)

20.5 External services

The breakdown of external services as of December 31, 2023 and 2022 is as follows:

	Thousand euro	
	2023	2022
Development costs	3,088	2,852
Leases (Note 8.5)	5,547	5,212
Repairs and maintenance costs	3,786	3,586
Independent professionals' services	11,039	9,163
Transport	13,104	11,686
Insurance premiums	1,126	968
Bank services	1,211	1,239
Advertising, publicity and public relations	1,417	1,472
Utilities	2,994	4,457
Other services	9,295	7,751
	52,607	**48,386**

21. FOREIGN CURRENCY TRANSACTIONS

The amounts of the transactions carried out in foreign currencies during 2023 and 2022 are as follows:

	Thousand euro	
	2023	2022
Sales	203,260	170,290
Rendering of services	21,424	14,728
Purchases	(114,749)	(97,660)
Services received	(26,753)	(24,219)
	83,182	**63,139**

In addition to fair value investments with profit or loss changes, cash (Note 12) and bank borrowings in foreign currencies (Note 18.1), at December 31, 2023 the Group had balances receivable and payable in currencies other than the euro amounting to 55,377 thousand euro and 67,485 thousand euro, respectively (58,938 thousand euro and 59,464 thousand euro, respectively, at December 31, 2022).

22. TRANSACTIONS WITH RELATED PARTIES

Related companies are considered to be associates, parent company shareholders or their investee companies and companies over which control is exercised but not included in the consolidated annual accounts.

Directors and senior management are also considered to be related parties.

(Thousand euro)

The related parties that have carried out transactions with the Group in 2023 and 2022, as well as the nature of the relationship, are as follows:

	Nature of the association
Majority shareholder (Ziskua Ber, S.L.)	Associated company
Lur Zabalondo, S.L.	Associated company
Directors	Board members
Senior Management	Executives

The Group's subsidiaries with tax domicile in Bizkaia file consolidated VAT returns with Ziskua Ber, S.L., the head of the consolidated tax group, pursuant to Article 163 quinquies of Local Regulation 7/1994 on VAT.

Transactions carried out with related entities correspond mainly to services received, commercial and financial transactions and operating leases of certain assets, and are carried out at market prices, which are similar to those applied to non-related entities.

22.1 Associated entities

The breakdown of balances with associated entities that have not been eliminated in the consolidation process is as follows:

	Thousand euro	
	2023	2022
Associated companies		
Trade receivables for sales and services rendered – short term	4,246	4,929
Sundry payables - short-term	(1,589)	(1,696)
Loans to third parties - long-term	123	123

During the 2023 normal course of business, the Arteche Group rendered automation, control and protection services to subsidiaries of Lur Zabalondo, S.L. amounting to 25 thousand euro (122 thousand euro in 2022).

At December 31, 2023, the Arteche Group provides guarantees to third parties in relation to the activity carried out by subsidiaries of Lur Zabalondo, S.L. amounting to 8,200 thousand euro (6,929 thousand euro in 2022). Nonetheless, at the time of drafting these consolidated financial statements, Lur Zabalondo, S.L. provides a counter-guarantee to the Arteche Group for 100% of the aforementioned amounts.

All transactions with associated entities have been carried out at market prices.

(Thousand euro)

22.2 Directors and senior management

a) Remuneration of members of the Board of Directors and Senior Management Personnel

The breakdown of the remuneration accrued by the members of the parent company's Board of Directors, and senior management, is as follows:

	Thousand euro	
	2023	**2022**
Directors		
Salaries	535	477
Per diems	743	672
Senior Management		
Salaries	2,489	2,075
	3,767	**3,224**

At 31 December 2023 and 2022, Arteche Group did not record any pension or life insurance obligations relating to previous or current members of the Board of Directors of the parent company or senior management, and had not assumed any obligations with them regarding any guarantees.

In 2023, the Parent Company paid directors' liability insurance premiums for damages caused by acts or omissions in the performance of their duties amounting to 29 thousand euro (26 thousand euro in 2022).

In addition to matters indicated in Note 22.1, at 31 December 2023 and 2022, there are no prepayments or loans granted to the members of the parent company's Board of Directors.

b) Advances and loans to members of the Board of Directors and Senior Management Personnel

As of December 31, 2023 and 2022, no advances or loans have been granted to members of the Board of Directors. Also, as of December 31, 2023 and 2022, no advances have been given to senior management personnel and there are no balances receivable.

c) Director conflict of interest situations

In order to avoid conflicts of interest with the parent company, during the year Directors that held positions on the Board of Directors complied with the obligations established in Article 228 of the Spanish Companies Act. Both they and persons related to them have abstained from entering into the conflicts of interest defined by Article 229 of that law, except in the cases where the appropriate authorization has been obtained.

23. OTHER DISCLOSURES

23.1 Audit fees

The fees accrued during the year for auditing services amounted to 350 thousand euro (325 thousand euro as of December 31, 2022).

In addition, fees accrued in 2023 for other verification services totaled 109 thousand euro (88 thousand euro in 2022).

The audit fees accrued during the year by other auditors of subsidiaries for audit and other verification services totaled 30 thousand euro (16 thousand euro as of December 31, 2022).

23.2 Information on environmental issues

The Group has adopted all appropriate measures with respect to the protection and improvement of the environment and the minimization of any environmental impact and complies with current legislation in this respect.

In this regard, expenses derived in 2023 from environmental actions totaled a 245 thousand euro amount (241 thousand euro in 2022). In turn, an income of 206 thousand euro was recorded in the current year from the sale of materials (174 thousand euro as of December 31, 2022).

At the end of 2023 and 2022, there was no significant equipment or facilities recognized under property, plant and equipment whose purpose was to protect and improve the environment.

The parent company's directors are not aware of the existence of any significant contingencies relating to the protection and improvement of the environment and do not consider it necessary to record any provision whatsoever in this respect.

23.3 Guarantees and contingent liabilities

Group companies have provided guarantees at December 31, 2023 for commercial transactions amounting to 8,066 thousand euro (6,987 thousand euro at December 31, 2022); for financing transactions amounting to 4,822 euro (8,759 thousand euro at December 31, 2022); for letters of financial support to the Group in the amount of 52,819 thousand euro (27,619 thousand euro at December 31, 2022) and others in the amount of 13,187 thousand euro (12,169 thousand euro at December 31, 2022).

24. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end, and up to the date of drafting these financial statements, no significant events have occurred that could have a material effect on the 2023 financial statements.

APPENDIX

The information regarding group and jointly-controlled companies and associates as of Sunday, December 31, 2023 is as follows:

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Electrotécnica Arteche Hermanos, S.L. (*)	-	0.01%	99.99%	2,006	43,477	8,011	-	53,494	736	54,230	Derio Bidea 28, Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Arteche Smart Grid, S.L.U. (*)	-	-	100%	588	13,987	9,048	6,000	29,623	923	30,546	Derio Bidea 28, Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Inversiones Zabalondo, S.L. (***)	4,815	99.98%	0.02%	777	5,294	491	-	6,562	-	6,562	Derio Bidea 28, Mungia (Bizkaia)	To buy, sell, rent, parcel, urbanize, segregate and group plots, lands and estates, as well as to manage, exploit and administer such real estate properties and to provide real estate management and administration services to third parties.
Arteche Instrument Transformers, S.L. (***)	40,318	99.98%	0.02%	7,946	32,527	(1,171)	(2,404)	36,898	-	36,898	Derio Bidea 28, Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities.
Arteche Smart Grid, S.L.U. (***)	47,984	100%	-	1,318	18,723	5,287	37,420	62,748	-	62,748	Derio Bidea 28, Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities.
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,301)	(67)	22,961	853	-	853	Derio Bidea 28, Mungia (Bizkaia)	Promoting and encouraging companies by means of temporary ownership of their share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	68	133	-	301	-	301	Derio Bidea 28, Mungia (Bizkaia)	R&D projects related to technologies that are relevant to the energy generation, transmission and distribution sector and the incorporation of new technologies in the products and manufacturing processes involved.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Arteche North America, S.A. de C.V. (*)	-	-	100%	22,834	13,933	4,828	-	41,595	(1,027)	40,568	Km. 73,540. Ant. Carretera, México-Querétaro, Tepejí del Río de Ocampo, State of Hidalgo (Mexico)	Manufacture and marketing of instrument transformers, relays and automated protection equipment for High, Medium and Low Voltage electrical installations.
AIT, S.A. (*)	-	-	100%	14,432	(9,742)	(1,479)	12,198	15,409	(13,020)	2,389	Ruta 9, Km 689 Ferreyra Córdoba (Argentina)	Manufacture and marketing of current transformers for high voltage electrical facilities.
Arteche EDC Equipamientos e Sistemas, S.A. (*)	-	-	100%	49,881	(43,514)	2,673	-	9,040	(2,587)	6,453	Rua Juscelino K. de Oliveira, Curitiba,State of Paraná (Brazil)	Manufacture and marketing of electrical equipment and automated protection equipment for power plants.
Arteche USA, Inc. (*)	-	-	100%	1,541	2,254	2,669	-	6,464	(179)	6,285	18503 Pines Blvd. Suite 313, Pembroke Pines (United States)	Electronic and electrical equipment trading company.
Arteche ACP do Brasil Ltda		0.02%	99.98%	20,144	(11,177)	(1,145)	-	7,822	(9,131)	(1,309)	Rua Rodolpho Hatschbach, nº725 Bairro, Cidade Industrial de Curitiba, State of Paraná (Brasil)	Marketing, import, export and maintenance of machinery, parts and equipment for the generation or cogeneration of electric power, telecommunications, electrical and electronic components.
Arteche DYH Electric Co., Ltd. (**)	-	-	60%	11,886	(113)	2,013	-	13,786	2,192	15,978	Taiping Industrial Park, Pulandian Dailian, Liaoning Province, (China)	Manufacture and marketing of current transformers for high voltage electrical facilities.
Arteche Hitachi Energy Instrument Transformers, S.L.U. (*)	-	51%	-	1,540	(158)	(242)	4,553	5,693	20	5,713	Gerezpea, 15, Polígono Industrial de Jundiz, Vitoria (Álava)	Manufacture and marketing of products related to the electricity and energy sector.
Arteche- Inael, S.L.	-	-	56%	1,787	(151)	(750)	-	886	-	886	Derio Bidea 28, Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
Smart Digital Optics Pty.	-	-	100%	5,035	(4,486)	241	-	790	(639)	151	National Innovation Centre,145, Australian Technology Park, 4,	Design and research in the field of optical transformers.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
											Cornwallis Street, Eveleigh, New South Wales (Australia)	
Zizkua Inversiones, S.L.	317	15%	-	2,110	(110)	45	-	2,045	-	2,045	Derio Bidea 28, Mungia (Bizkaia)	Purchase, subscription, exchange and sale of securities, advice to companies and development of activities related to real estate and urban development.
Arteche & Inael Industrial Elétrica Ltda	-	-	56%	711	(1,252)	(5)	-	(546)	128	(418)	Rua Delegado Theolindo Baptista de Siqueira, 85, Almirante Tamandaré, State of Paraná (Brazil)	Import, export, trade and manufacturing services for machinery and equipment for the measurement, distribution and control of electrical energy.
SAC Maker, S.A.U. (*)	-	-	100%	561	(4,240)	(229)	2,200	(1,708)	139	(1,569)	Las Rozas (Madrid)	Development and commercialization of engineering projects related to the automation of control systems, manufacturing and/or assembly of electrical machinery and electronic equipment and their corresponding software, as well as safety-related services.
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(165)	-	-	(160)	-	(160)	Derio Bidea 28, Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, both national and foreign, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities. As well as to carry out studies and market research, manage and place its own financial resources and those of the entities in which it has a direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V. (*)	-	0.01%	99.99%	5,272	(3,440)	956	-	2,788	360	3,148	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco, Naucalpan de Juaréz (Mexico)	Development, design, manufacture, production, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
												voltage electrical installations, using all energy sources, including renewable energies.
Arteche Chile, S.p.A	-	-	100%	1,656	(1,997)	111	-	(230)	371	141	Derio Bidea 28, Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
Esitaş Elektrik Sanayi ve Ticaret A.Ş. (*)	-	-	100%	3,049	10,611	(5,060)	-	8,600	(6,787)	1,813	Hilal, Pasakoy Cd. No:31, 34791. Sancaktepe/Istanbul	Manufacture and marketing of products related to the electricity and energy sector.
PT Esitaş Pacific	-	-	100%	1,227	(148)	188	-	1,267	9	1,276	Kawasan Industri Jababeka Tahap 1 JL Jababekea IX A Blok P-2F Cikarang, Bekasi 17530 Indonesia	Manufacture and marketing of products related to the electricity and energy sector.
Elmya Arteche Limited	-	-	49.99%	1,825	(2,124)	(10)	-	(309)	325	16	17 Gosvenor Gardens London SWS1W0BD	Construction of utility projects for electricity and telecommunications.
Arteche Germany GmbH	-	-	100%	25	7	70	-	102	-	102	Emil-Riedel-Str. 7, 80538 München, Germany	Manufacture and marketing of products related to the electricity and energy sector.
Arteche UK, Ltd	-	-	100%	-	-	-	-	-	-	-	Martley House E1 Yeoman Gate, Yeoman Way, Worthing WEST SUSSEX (UNITED KINGDOM BN13 3QZ)	Manufacture and marketing of products related to the electricity and energy sector.
Arteche Andina, S.A.S.	-	-	100%	30	(100)	(23)	-	(93)	(7)	(100)	CL 78 nº9 57 P6, Bogotá D.C. (Colombia)	Promotion of the company's business activities and products in the Andean region.
Arteche Power Technology (Shanghai) Co., Ltd.	-	-	100%	30	-	8	-	38	(2)	36	Office 09-103, No. 333, Wanghangdu Road, Jing'an District, Shanghai (China)	Commercial Services

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Arteche Smart Grid India, PL	-	-	100%	45	60	(86)	-	19	(1)	18	No 913, 9th Floor, Raheja Towars East Wing, 26/27 MG Road Bangalore - 560001	Marketing of all types of electrical and electronic components of the Arteche brand
Arteche Middle East J.LT.	-	-	100%	25	191	(2)	-	214	(5)	209	Office No. 903-904-16 Level 9-Reef Tower Cluster O Jumeirah Lake Towers Dubai (UAE)	Marketing of all types of electrical and electronic components of the Arteche brand
	93,604											

(*) Companies audited by EY
(**) Companies audited by another auditor
(***) Companies that have distributed dividends during 2023.

The information regarding group and jointly-controlled companies and associates as of Saturday, December 31, 2022 is as follows:

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Electrotécnica Arteche Hermanos, S.L. (*)	-	0.01%	99.99%	2,006	47,047	630	-	49,683	564	50,247	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Arteche Smart Grid, S.L.U. (*)	-	-	100.00%	588	15,620	4,867	6,000	27,075	1,141	28,216	Derio Bidea 28 Mungia (Bizkaia)	Purchase, sale and manufacture of all kinds of electrical appliances.
Inversiones Zabalondo, S.L. (***)	11,469	99.98%	0.02%	777	11,948	425	-	13,150	-	13,150	Derio Bidea 28 Mungia (Bizkaia)	To buy, sell, rent, parcel, urbanize, segregate and group plots, lands and estates, as well as to manage, exploit and administer such real estate properties and to provide real estate management and administration services to third parties.
Arteche Instrument Transformers, S.L. (***)	38,069	99.98%	0.02%	7,271	35,525	(4,572)	436	38,660	-	38,660	Derio Bidea 28 Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities.
Arteche Smart Grid, S.L.U. (***)	47,984	100%	-	1,317	20,921	882	42,884	66,004	-	66,004	Derio Bidea 28 Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,221)	(80)	22,961	920	-	920	Derio Bidea 28 Mungia (Bizkaia)	Promoting and encouraging companies by means of temporary ownership of their share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	63	5	-	168	32	200	Derio Bidea 28 Mungia (Bizkaia)	R&D projects related to technologies that are relevant to the energy generation, transmission and distribution sector and the incorporation of new technologies in the products and manufacturing processes involved.
Arteche North America, S.A. de C.V. (*)	-	-	100%	22,834	12,307	3,110	-	38,251	(4,663)	33,588	Km. 73,540. Ant. Carretera México-Querétaro Tepejí del Río de Ocampo State of Hidalgo (Mexico)	Manufacture and marketing of instrument transformers, relays and automated protection equipment for High, Medium and Low Voltage electrical installations.
AIT, S.A. (*)	-	-	100%	14,062	(7,282)	(3,648)	8,282	11,414	(10,224)	1,190	Ruta 9, Km 689 Ferreyra Córdoba (Argentina)	Manufacture and marketing of current transformers for high voltage electrical facilities.
Arteche EDC Equipamientos e Sistemas, S.A. (*)	-	-	100%	49,881	(44,428)	905	-	6,358	(2,961)	3,397	Rua Juscelino K. de Oliveira Curitiba State of Paraná (Brazil)	Manufacture and marketing of electrical equipment and automated protection equipment for power plants.
Arteche USA, Inc. (*)	-	-	100%	1,541	706	1,548	-	3,795	10	3,805	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Electronic and electrical equipment trading company.
Arteche ACP do Brasil Ltda	-	0.02%	99.98%	20,144	(10,867)	(310)	-	8,967	(9,114)	(147)	Rua Rodolpho Hatschbach, nº725 Bairro, Cidade Industrial de Curitiba Estado de Paraná (Brasil)	Marketing, import, export and maintenance of machinery, parts and equipment for the generation or cogeneration of electric power, telecommunications, electrical and electronic components.
Arteche DYH Electric Co., Ltd. (**)	-	-	60%	11,886	(1,682)	1,564	-	11,768	3,037	14,805	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and marketing of current transformers for high voltage electrical facilities.
Arteche Hitachi Energy Instrument Transformers, S.L.U. (*)	-	51%	-	1,540	-	(158)	4,553	5,935	27	5,962	Gerezpea, 15 Polígono Industrial de Jundiz Vitoria (Alava)	Manufacture and marketing of products related to the electricity and energy sector.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Arteche- Inael, S.L.	-	-	56%	1,786	(151)	-	-	1,635	-	1,635	Derio Bidea 28 Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
Smart Digital Optics Pty.	-	-	100%-	5,035	(5,902)	1,417	-	550	(643)	(93)	National Innovation Centre,145 Australian Technology Park, 4 Cornwallis Street, Eveleigh New South Wales (Australia)	Design and research in the field of optical transformers.
Zizkua Inversiones, S.L.	317	15%	-	2,110	(62)	-	-	2,048	-	2,048	Derio Bidea 28 Mungia (Bizkaia)	Purchase, subscription, exchange and sale of securities, advice to companies and development of activities related to real estate and urban development.
Arteche & Inael Industrial Elétrica Ltda	-	-	56%	711	(1,246)	(4)	-	(539)	144	(395)	Rua Delegado Theolindo Baptista de Siqueira, 85 Almirante Tamandaré State of Paraná (Brazil)	Import, export, trade and manufacturing services for machinery and equipment for the measurement, distribution and control of electrical energy.
SAC Maker, S.A.U. (*)	-	-	100%	560	(4,157)	(83)	2,200	(1,480)	243	(1,237)	Las Rozas (Madrid)	Development and commercialization of engineering projects related to the automation of control systems, manufacturing and/or assembly of electrical machinery and electronic equipment and their corresponding software, as well as safety-related services.
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(240)	-	75	(160)	-	(160)	Derio Bidea 28 Mungia (Bizkaia)	To buy, subscribe, exchange and sell all kinds of securities, both national and foreign, for its own account and without intermediary activity and, in particular, to carry out the activity of management and administration of said securities. As well as to carry out studies and market research, manage and place its own financial resources and those of the entities in which it has a direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V. (*)	-	0.01%	99.99%	5,272	(3,508)	76	-	1,840	90	1,930	Calle 8 nº1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juarez (Mexico)	Development, design, manufacture, production, commercialization, distribution, promotion, financing, execution and rendering of services in all matters related to project management of high, medium and low voltage electrical installations, using all energy sources, including renewable energies.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit/(loss) for the year	Other shareholder contributions and other items	Equity	Other equity items	Equity	Address	Activity
Arteche Chile, S.p.A	-	-	100%	1,656	(1,956)	(41)	-	(341)	380	39	Derio Bidea 28 Mungia (Bizkaia)	Promoting or fostering companies through temporary participation in their capital, receiving and granting financing to the companies in which it participates.
ZB Inversiones, S.A.	2,308	97.01%	2.99%	123	1,310	(98)	770	2,105	(1,051)	1,054	Ruta nacional nº9, km 689, Barrio Ferreyra, City of Córdoba, Argentina	Real estate activity
Esitaş Elektrik Sanayi ve Ticaret A.Ş. (*)	-	-	100%	484	7,117	3,470	-	11,071	(4,081)	6,990	Hilal, Pasakoy Cd. No:31, 34791. Sancaktepe/Istanbul	Manufacture and marketing of products related to the electricity and energy sector.
PT Esitaş Pacific	-	-	100%	897	224	(372)	-	749	50	799	Kawasan Industri Jababeka Tahap 1 JL Jababekea IX A Blok P-2F Cikarang, Bekasi 17530 Indonesia	Manufacture and marketing of products related to the electricity and energy sector.
Elmya Arteche Limited	-	-	49.99%	1,825	(1,996)	(128)	-	(299	272	(27)	17 Gosvenor Gardens London SWS1W0BD	Construction of utility projects for electricity and telecommunications.
Arteche Germany GmbH	-	-	100%	25	-	7	-	32	-	32	Emil-Riedel-Str. 7 80538 München Germany	Manufacture and marketing of products related to the electricity and energy sector.
Arteche Andina, S.A.S.	-	-	100%	29	(87)	(14)	-	(72)	11	(61)	CL 78 nº9 57 P6 Bogotá D.C. (Colombia)	Promotion of the company's business activities and products in the Andean region.
	100,317											

(*) Companies audited by EY
(**) Companies audited by another auditor
(***) Companies that have distributed dividends during 2022.

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated Management Report for 2023

Accumulated Results Figures

	2023	2022	Reported variation	Variation at constant currency
Turnover (€M)	401.3	345.9	+16.0%	+23.3%
EBITDA (€M)	40.7	30.1	+35.1%	+41.3%
Profit per share (euro)	0.21	0.13	+56.9%	
Net debt/EBITDA (ratio)	1.0	1.6	-0/6x	

- Turnover for 2023 totaled 401.3 million euro, reflecting a growth of +23.3% in constant currency.
- EBITDA amounted to 40.7 million euro, equivalent to a margin on turnover of 10.1%.
- Earnings for the year increased by +56.9% when compared to the previous year, to 0.21 euro per share.
- Debt at December 31, 2023 was reduced to 41.7 million euro, representing a leverage of 1.0x EBITDA for the last twelve months, with an improvement in leverage from the 1.6x ratio in 2022.

Business Model and Strategy

Founded in 1946, the Arteche Group operates within the **electricity sector**, providing **products, solutions and services to cover all needs from the Generation and Transmission to the Distribution of electricity**. The Group's business specializes in the design, manufacture and supply of equipment and solutions focused on ensuring that the energy produced in any generation plant in the world reaches the end user with **efficiency, quality and reliability**.

The Arteche Group develops its entire product range in **three business segments**:

Segment	Description	Business
Measuring & Monitoring Systems	Measuring and protection of electrical power systems, covering the functions of current and voltage signals collection from power lines to convert them to measurable values for meters and protections, the equipment responsible for energy billing and protection of the system's assets	• High and Medium Voltage Instrument Transformers • Digital measuring equipment • Sensors (current and voltage)
Automation of Transmission and Distribution Networks	Transmission and distribution network substation automation systems that provide protection, control, automation, monitoring and communication capabilities as part of a comprehensive substation control and monitoring solution	• Auxiliary relays (industry and railroads) • SAS (Substation Automation and Distribution Systems)
Network reliability	Products and services that enhance the power system's efficiency, reliability and stability. Reliability indices in a power system are often used to make short, medium and long-term network planning decisions	• Energy quality • Reclosers • Analysis, Consulting and Engineering Services

Within this framework, the Arteche Group is among the **top 3** world leaders in the instrument transformer market and **number 1** in the auxiliary relay market, maintaining a regional leadership position for the rest of the products. All of Arteche's products are aimed at **highly demanding and value-added** markets, such as renewable generation and the railway sector. This is why the company invests recurrently in R&D&I, with the intention of improving the quality and efficiency of its products, innovating in the development of new solutions and, ultimately, offering the customer a differential added value.

Arteche's **customer base** is highly diversified, with utilities (electrical companies) being its main customer. Arteche has **approvals** in 90% of the utilities around the world (approximately 1,500), and obtaining these technical approvals is the main **barrier** to business **entry** . In addition, it is trusted by numerous EPCs, OEMs and distributors. The first 5 customers have been working with the Arteche Group for more than 30 years.

Arteche is currently present in more than **175 countries** with **commercial distribution** capabilities and has **13 factories** in the EMEA, North America, Latin America and Asia-Pacific regions, including **7 dedicated research centers**. Arteche is made up of more than **2,800** people from across the world.

The year 2023 marks the end of Arteche's 2020-2023 Strategic Plan, a period when, among other relevant milestones in its history, the Company was listed on the BME Growth segment of BME MTF Equity. The basic pillars of this plan are

- **Improving the value proposition**: Improving and strengthening competitive advantages in the market by developing high value-added solutions and services in the product portfolio.
- **Geographic expansion**: Increasing our international presence, with the aim of growing mainly in the Asian and United States markets, as well as strengthening our presence in Europe.
- **New market segments**: Identifying new market segments that are complementary to its value offer, such as the railroad sector and energy-intensive industrial companies, among others.
- **New business lines**: Developing new business lines to add to the current portfolio (e.g. asset management technologies).
- **New technologies**: Strengthening our commitment to innovation and the development of new technologies, which will allow us to remain at the forefront of market value.
- **New solutions:** Developing new solutions focused on the transformation of the electricity sector, such as electrification, digitalization, decarbonization, decentralization and integration of renewable energies.

Global Context

Macroeconomic context

The year 2023 was no stranger to the geopolitical and macroeconomic tensions that had such a strong impact during the course of 2022, although the impact was relatively less severe. The world has faced a slowing economy, with deteriorating growth prospects in all countries, and serious geopolitical uncertainties such as the war between Russia and Ukraine, the conflict in Gaza or the instability of the Red Sea.

Against this backdrop, three **issues have been noteworthy for the global economy** in 2023:

(i) Moderation of the increase in raw material prices that resulted from the Russian invasion of Ukraine;
(ii) The tightening of policies—especially monetary policies—in response to rising inflation;
(iii) China's disappointing growth despite its reopening, stemming from a real estate crisis.

However, this evolution conceals the **major differences among economic areas**. The United States's growth has remained solid, acting as the world's locomotive. Meanwhile, the Eurozone is struggling to adapt to the energy shock and to avoid a recession, and China is finding it very difficult to revive its economy in the face of the exhaustion of its growth model and of the risks arising from the real estate crisis.

Inflation remains above target levels in many countries, but has moderated across the board in 2023 from the high levels reached in 2022, due to the powerful response of central banks. Thus, the Federal Reserve raised benchmark rates from 0.25% to 5.5% in July 2023. Meanwhile, during its September meeting, the European Central Bank kept the main financing operations rate at 4.50%. In any case, the progress in disinflation over the course of 2023 has been sufficient for official rate hikes to be paused in recent months. Even so, inflation in Argentina and Turkey has remained at very high levels—211.4% and 64.8%, respectively.

As for currencies, after the dollar tended to strengthen during 2022, since the beginning of 2023 this trend has been reversed, coinciding with a stronger stance on the part of the ECB and the mitigation of some risks for Europe. During 2023, the **exchange rates** of Arteche's other reference currencies, such as the Mexican peso and the Brazilian real, appreciated against the euro (10% and 4%, respectively), except for the Argentine peso, the Chinese yuan and the Turkish lira, which depreciated by 373%, 6% and 63%, respectively.

Sector Context

At the sector level, **significant investment has been made by electrical companies** in the Distribution, Transmission and Generation segments, and these very high levels are expected to continue in upcoming decades.

The importance of the energy transition—a consensus among the majority of countries worldwide—is driving investment in renewable generation, modernization and repowering of electricity grids, interconnections, digitalization and, in general, those needs arising from the decarbonization of the economy.

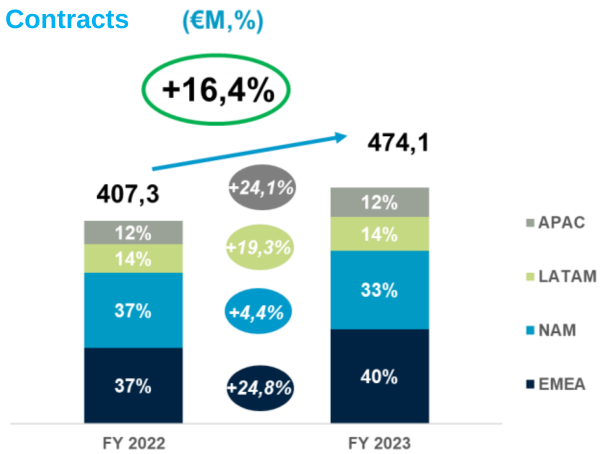
Capital investment in global power grids increased by 5% in 2023 compared to 2022, to 310 billion USD, according to an analysis by BloombergNEF, during a time that saw an increase in grid congestion and interconnection queues.

The U.S. was the largest investor, with 87 billion USD, followed by China and Europe. In the latter two regions, investments have focused on improving interregional transmission capacities and digitizing and upgrading high-voltage transmission networks, respectively.

Also, according to the International Energy Agency's World Energy Outlook report, investment in clean energy, captained by solar PV, has increased by 40% since 2020. The main reasons for this growth are emission reduction, energy security, industrial strategies and job creation.

Results Performance

Contracting (orders)



In **2023**, the Arteche Group achieved a turnover of **474 million euro,** an increase of more than **16% compared to the previous year**.

The **Group's three business segments** (i. measurement and monitoring of systems, ii. automation of transmission and distribution networks and iii. network reliability) and **the four geographical areas** where the company operates (EMEA, North America, Latin America and Asia-Pacific) grew significantly, driven by the significant investment made by electrical companies in the Distribution, Transmission and Generation segments, which will continue at very high levels in the upcoming years.

The **EMEA** region—which accounted for **40% of the** Group' **s total** order intake in 2023—reached 190 million euro, up **25% compared to the previous year**, thanks to countries such as Spain, the United Kingdom, France, Germany and the Middle East, with strong growth in all business segments.

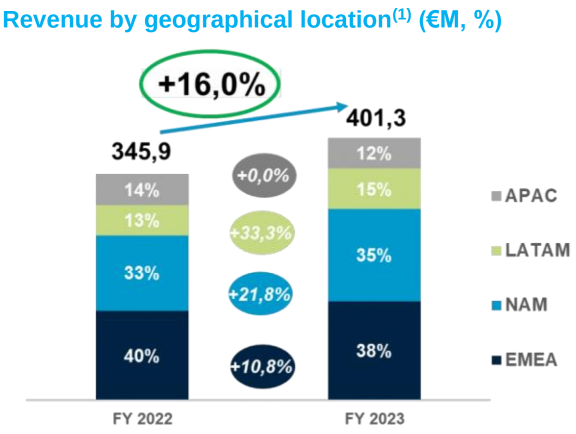
North America—which accounted for **33% of total order intake**—reached 158 million euro, an increase of **more than 4% compared to the previous** year, driven mainly by the United States. This country maintains its leading position in terms of order intake for the Arteche Group, driven by significant growth in all business segments. Thus, we continued to increase our market share in the segments of measurement and monitoring of systems (high and medium voltage) and Grid Reliability, the latter driven by the strong investment in renewable energies.

The **Latin America** area **(14% of the total)** reached 68 million euro, growing by **19% compared to 2022**, driven by Brazil with strong growth across all business segments.

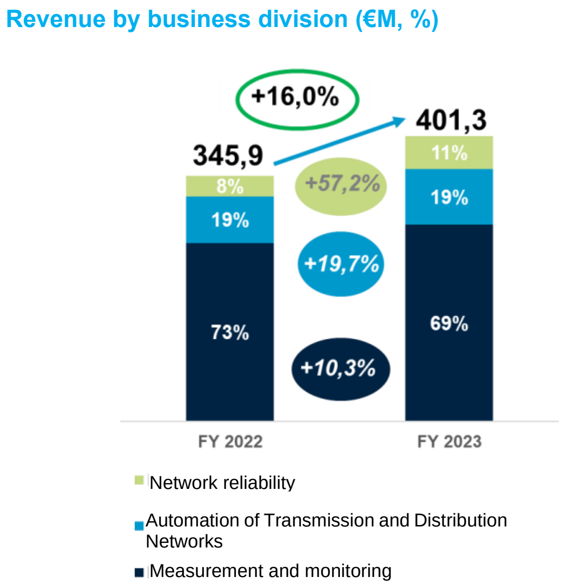
Finally, the **Asia-Pacific** area **(12% of the total)** grew by **24%** reaching 58 million euro, driven by the growth of markets (excluding China) in Southeast Asia (Thailand, Vietnam and Malaysia) and the significant growth in Australia, a market driven by significant investment in renewable energy generation and transmission networks.

Expectations for 2024 continue to be very **positive** and point to **double-digit growth**, driven by ongoing strong investment in renewable generation and the automation of transmission and distribution networks in all geographical locations.

Revenues



(1) Sales by destination: EMEA (Europe, Middle East and Africa), NAM (Mexico, USA and Canada), APAC (Asia-Pacific and Turkey), LATAM (Central and South America)



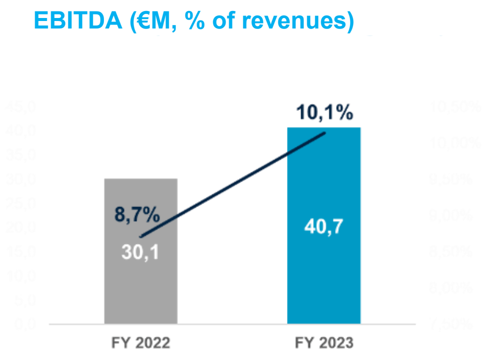
Group **revenue** grew by **16%** to **401 million euro** in 2023. All business segments and geographic regions grew significantly.

Particularly noteworthy in the year was the growth of the **grid reliability** segment (11% of overall turnover)**,** boosted by the growth of renewables worldwide and the positioning acquired in 3 key countries—the USA, Australia and Brazil—driving this segment to reach 46 million euro in turnover, **57%** more than the previous year.

The **transmission and distribution network automation** segment (19% of total revenues) grew **by 20% to 78 million euro** , driven by both the relay and substation automation businesses. It is worth highlighting the consolidation of growth in the railroads sector, a business area where the Arteche Group has achieved the objectives set out in the strategic plan.

Finally, the Group's most traditional segment, the **systems measuring and monitoring** segment (69% of total turnover), continued to grow to 277 million euro (up 10% compared to the previous year), thus placing the Arteche Group in the **top 2 of high-voltage transformer manufacturers worldwide**.

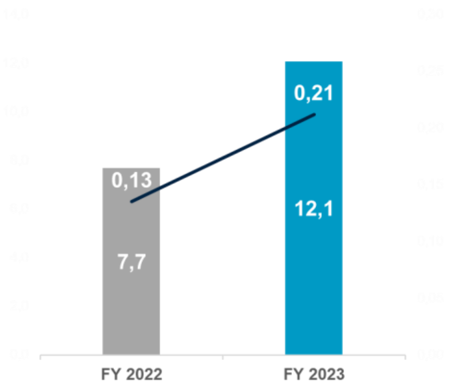
<u>Operating income (EBITDA)</u>



The accumulated **gross operating profit (EBITDA)** for fiscal 2023 amounted to 40.7 million euro. This represents a growth of +35.1% in reported terms, reflecting an increase in constant currency of +41.3%. The EBITDA obtained represents a margin over sales of 10.1%. It reflects an improvement of 143 basis points over the previous year.

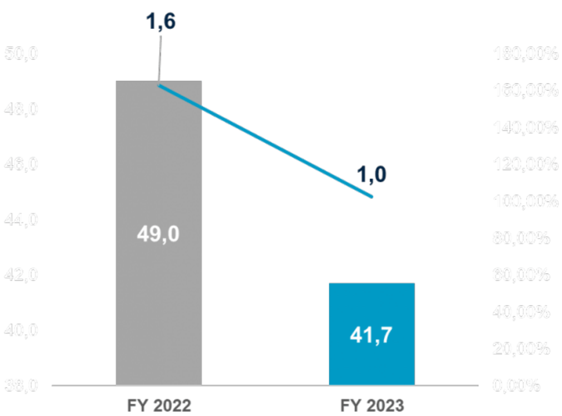
Net income and balance sheet

Net income (€M) and EPS (€/share)



The **net income** for 2023 amounted to 12.1 million euro. Equivalent to earnings per share of 0.21 euro, reflecting an increase of +56.9% over the previous year.

Net debt (€M) and Net debt/EBIDTA (ratio)



At the balance sheet level, **net debt** at December 31, 2023 stood at 41.7 million euro. Represents a leverage ratio equivalent to 1.0x times EBITDA for the last twelve months, an improvement on the 1.6x leverage ratio of 2022.

Relevant Management Figures

	2023	2022
Turnover (€M)	401.3	345.9
EBITDA (€M)	40.7	30.1
EBITDA margin (% of revenues)	10.1%	8.7%
EBIT (€M)	24.2	14.3
Net income (€M)	12.1	7.7

Free cash flow (€M)	16.2	6.0
Net Financial Debt (€M)	41.7	49.0
Net Financial Debt / EBITDA (ratio)	1/0x	1/6x
Net Financial Debt / equity (ratio)	0/4x	0/5x
EBITDA /financial expenses (ratio)	5/2x	6/5x

Total assets (€M)	327.8	319.4
Total equity (€M)	73.9	69.0

Shareholder Value Creation

Shareholder remuneration

The shareholder remuneration policy aims to offer an attractive, predictable and sustainable dividend over time. This policy is compatible with the top priority assigned to maintaining a level of shareholders' equity that guarantees investments for the Company's future growth and ensures value creation.

The overall shareholder remuneration charged to the 2022 profit/(loss) was **0.040 per share** (interim dividend paid on June 5, 2023), equivalent to the distribution of **30% of the Group's net income for 2022**.

With regard to the expected payments for 2024, the Board of Directors has proposed a profit/(loss) **payout of 50%** of the Group's net income **for the 2023 financial year**, equivalent to an amount of **0.1059 euro per share**.

Stock market performance

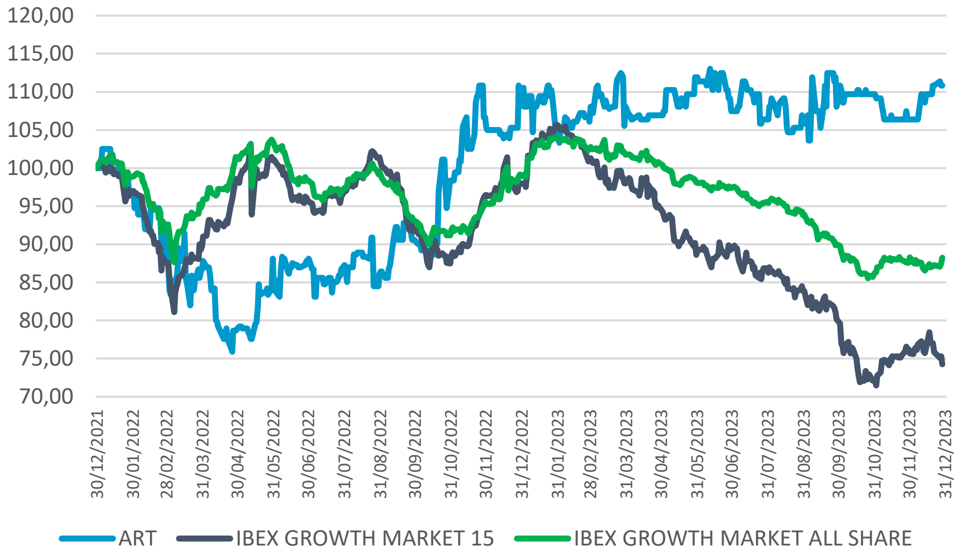
As of June 11, 2021, the shares of Arteche Lantegi Elkartea, S.A., parent company of the Arteche Group, are listed on the **BME Growth** trading segment **of BME MTF Equity** (multilateral trading system).

The capital stock of the Parent Company of the Group is comprised of 57,094,013 shares of 0.10 euro par value each, of the same class, and fully paid up.

With regard to share price performance, at December 31, 2023, the share **appreciated by +2.6% compared to the end of 2022**, ending the year at 4.00 euro per share and thus outperforming other benchmark indices such as the Ibex Growth Market 15 (-24.2%) and the Ibex Growth All Share (-11.0%), as shown in the graph below:

Arteche's share price performance

In comparative percentage terms, 2021 base



Arteche's main stock market indicators

	2023	2022
Admitted capital (Thousand euro)	5.709	5.709
No. of shares (x 1.000)	57.094	57.094
Period-end closing price (euro)	4,00	3,90
Last price period (euro)	4,00	3,90
Max. period price (euro)	4,38	4,00
Min. period price (euro)	3,46	2,74
Capitalization (Thousand euro)	228.376	222.667
Volume (thousands of shares)	1.594	2.308
Cash (thousand euro)	6.236	7.453

<u>Acquisition of treasury stock</u>

As indicated in Note 13.5 to the financial statements, during 2023 there have been movements in the purchase and sale of treasury stock within the framework of the contract with the Liquidity Provider (Norbolsa S.A.). The difference between the cost price and the selling price has been recorded under "Voluntary reserves".

Investments

Investments in **property, plant and equipment** (8.5 million euro) are mainly composed of R&D activations (6.9 million euro) in terms of technology development projects that will lead to improvements in the range of products manufactured by the Group and for which it is expected to obtain positive future profits and results.

Investments in **property, plant and equipment** amounted to 6.9 million euro. Within this figure, this year's highlights include the move to a **new plant in Esitas Turkey**, which doubled the current production capacity to meet the increase in the order book, the **new high voltage laboratory in Mexico**, as well as the Group's migration to SAP HANNA, together with the usual technical installations and machinery associated with the replacement and improvement of production processes.

R&D Activities

For Arteche, innovation is a strategic variable, a corporate value and, most importantly, a commitment both in-house and to our customers.

As part of defining our **new 2024-2026 strategic plan**, we have developed an **innovation manifesto** that reflects our commitment to supporting the **four "D's" (decarbonization, digitalization, decentralization and democratization)** that underpin the current movement of electricity grids towards the **smart grids** concept.

Our priorities continue to be oriented towards developing actions focused on supporting the development of smart energy transmission and distribution networks that allow for the **efficient, reliable and sustainable** integration of the new realities associated with the energy transition (renewable technologies, electrical interconnections, electric vehicles, energy storage, etc.) within an increasingly digital and sustainable environment that introduces the need to develop and apply new technologies (cybersecurity, AI, eco-design, etc.).

Arteche maintains the firm conviction that **investment in R&D&I is fundamental** in order to improve its competitive position in the market, increasing its R&D expenditure and investment for yet another year and pursuing **five fundamental objectives**:

1. **Extending the product portfolio** by developing high value-added solutions that enable growth into **new market segments and geographical locations.**

2. **Improving the competitiveness** of its solutions by applying technology to productivity.

3. **Product sustainability** by developing solutions with a lower carbon footprint and overall environmental impact by working on durability, recyclability and the use of recycled materials.

4. **Speed to market**, rapidly developing technologically innovative solutions that enable us to achieve market leadership positions in new products and solutions.

5. **Servitization**, generating new business models, associating the concept of selling services with that of technological products.

R+D+i projects

Technological Innovation and Products

Arteche's strategic lines frame the R&D&I itinerary for the coming years in order to offer **Innovative and Sustainable Solutions** thanks to the application of disruptive technologies in the development of our new products.

To this end, we are working on the development of a **dual R&D roadmap**: (i) a roadmap that we call **incremental**, in which we aim toward the progress and constant improvement of products and solutions already existing or adjacent to Arteche's portfolio of products and services, and (ii) an **innovation** roadmap in which we seek disruptive developments through the introduction of new technologies and innovative solutions.

Arteche Centro de Tecnología [Arteche Technology Center]

The R&D&I Team includes **Arteche Centro de Tecnología**, an R&D business unit that is part of the Basque Science and Technology Network (RVCT), and which contributes specialized resources and technical means to the group's strategic R&D&I projects.

Innovation Ecosystem

During 2023 we promoted the development of the Arteche innovation ecosystem, through which we seek to multiply our development capabilities by adding those of customers, suppliers, technology centers and universities. Given the multiple technologies in which Arteche's R&D area operates, it is evident that trying to master all technologies ourselves is a limiting factor in our growth. **Arteche must master its core technologies and rely on the expertise of third parties within its ecosystem to develop new technological capabilities.**

The Arteche ecosystem is structured around **four main initiatives**:

1. The **acquisition** of technology and the **development** of the group's internal innovation capabilities.

2. **Dissemination** of Arteche's innovation **results** including participation in national and international events and publication of results.

3. The **development of a stable ecosystem of collaborators** through cooperation with technology centers, universities, and open innovation through start-ups.

4. The establishment of a **system of technological surveillance** of the environment that allows Arteche to have fast and updated knowledge on the evolution of the market, competitors and technology.

Sustainability

Throughout 2023 we have worked to develop the infrastructure and knowledge necessary to improve our new designs and products and to meet the information needs of our customers. To this end, we have implemented a **dedicated product sustainability organization** that channels all sustainability and eco-design actions and provides support and knowledge to all our teams in the different R&D centers.

In addition:

- **Arteche's eco-design policy** has been published, along with the methodologies and processes required to ensure improvement or DNSH in all our new designs and products.

- **Environmental impact calculation** tools have been implemented, accessible to all the group's companies and design teams and valid for all products.

- The **first third-party certified carbon footprints** have been obtained.

Notable Projects

- Upholding our commitment to sustainability and the environment, with the collaboration of its partner Hitachi, Arteche has developed the **world's first SF6-free 420 kV GIS voltage transformer**, reducing the gas's carbon footprint by more than 90% compared to conventional equipment.

- In collaboration with **Elewit**, **Redeia** Group's innovation unit, we developed the **ZEPAS** solution, an efficient and environmentally friendly portable system that makes it possible to supply power for the auxiliary services of any substation directly from the high voltage, dispensing with any generator set and, therefore, avoiding its emissions.

- We installed **the first PQ-Switch in the Talayuela II substation (Caceres)**. It is a new solution for connecting capacitive loads, allowing for the safe connection of capacitor banks, mitigating the generated transient. Its functionality is integrated into the banks themselves to securely connect power electronics equipment such as solar inverters and ensure compliance with the grid code.

Organizational Innovation and Processes

The ability to **innovate, transform processes, incorporate new technologies and develop new products** are strategic aspects of Arteche's activity. They are a source of competitive advantages and, above all, a firm commitment to customer satisfaction within a context that is to become more and more responsive, in a cleaner, more efficient and effective environment, with added safety every day.

Outlook for the Group

Arteche's sector—the **supply of solutions for the generation, transmission and distribution of electric power**—is currently in its sweet spot.

The need to replace equipment that has reached the end of its life cycle, sustainability commitments to reduce the carbon footprint, and the increased complexity of the network constitute a **the wind behind our sails** that boosts the cruising speed in order to achieve the strategic objectives of the 2024-2026 plan.

This dynamic has led to **double-digit growth in the main business metrics**: revenue, EBITDA and profit. This allows us to maintain a level of investment in innovation of over 3% of turnover, since the technological advances available allow us to increase the functionality of our products and solutions.

This situation will continue in upcoming years, providing a **stable framework for executing planned investments** to increase production capacity and progressively upgrade the product range. **We** therefore **expect our results to remain solid**, progressively demonstrating that our business profile and the way we serve our customers nowadays are more consolidated than ever.
However, it is necessary to pay attention to the potential macroeconomic, competitive and regulatory risks facing the business. Each of these risks has an associated metric, a responsible party and an action plan to mitigate it.

In summary, Arteche will benefit from the **positive circumstances**, which, combined with a well-developed strategic plan and the commitment of all its employees, will allow it to continue writing its success story, culminating in its 80th anniversary in 2026.

Main Risks and Uncertainties

The Arteche Group is exposed to various risks inherent to the activities it carries out and to the different countries and markets in which it operates, which may prevent it from achieving its objectives.

In its commitment to address this issue, Arteche's Board of Directors establishes the basic mechanisms and principles for an adequate control and management of risks through the General Risk Control and Management Policy. Through this policy, in line with its mission, vision and values, the Group is committed to providing greater certainty and security in:

- The achievement, with a controlled volatility, of the strategic objectives set by the Group;
- Providing the highest level of guarantees to shareholders and defending the interests of all its stakeholders;
- Protection of the Group's results and reputation;
- Safeguarding business stability and financial strength on a sustained basis over time;
- Guaranteeing compliance with applicable regulations.

To this end, the General Risk Control and Management Policy is deployed through a Group-wide Risk Management System. This system is comprised of a set of rules, processes, procedures, controls and information systems, whereby all risks are adequately managed through the system stages and activities below, including:

1. Establishment of the risk management context
2. Identification of the different types of risk in line with the main ones detailed in the Policy
3. Risk assessment
4. Measures in place for the treatment of the identified risks
5. Periodic risk monitoring and reporting

The **Risk Management System** adopted by the Arteche Group as detailed above is **aligned with international standards** regarding the use of an effective methodology for the analysis and integrated management of risk and the **Three Lines Model**, on the assignment of responsibilities in the area of risk control and management. In this regard, the Board of Directors is ultimately responsible for the **General Risk Control and Management Policy**, approving the procedures relevant to its identification, measurement, management and control. It is also in charge of establishing clear lines of authority and responsibility. The Audit Committee is responsible for the supervision or independent assessment of the effectiveness of the Risk Control and Management System implemented and the procedures designed to monitor it. To this end, it will rely on the **Risk Function** included within the Finance Department and additionally on the **Internal Audit Function**.

The most significant risks faced by the Group can be classified into the following categories:

- **Strategic risks**: arising from the uncertainty represented by macroeconomic and geopolitical conditions, in addition to the specific characteristics of the sector and markets in which the Group operates and the strategic and the technological planning decisions adopted.
- **Financial risks**: arising from market fluctuations, contractual relationships with third parties and counterparties related to investments in financial assets and liabilities. The main ones are:
    - **Market risk**: exposure of the Group's results and equity to fluctuations in exchange rates, interest rates and commodity prices, mainly.
    - Credit risk: insolvency, bankruptcy proceedings or non-payment of monetary obligations on the part of counterparties to which the Group has granted net credit and which is pending collection.
    - **Liquidity and debt risk**: inability to carry out transactions or non-compliance with the Group's obligations due to lack of funds or of access to financial markets, due to a decrease in creditworthiness (credit rating) or due to other causes. This also includes the risk of being unable to obtain purchasers for an asset for sale at a given time.

- **Operational, environmental, social and technical risks**: Inherent to all the Group's activities, products, systems and processes that cause economic/reputational impacts as a result of human/technological errors, inadequate organizational structure, non-robust internal processes, intervention of external agents, climate change, supply chain, people's health and safety.

- **Technological risks**: related to the security of the Group's information, the normal development of daily communications by means of computer applications, operating systems, databases, software, etc., and the security of all the assets that store, process or transmit data.

- **Compliance and regulatory risks**: Arising from the violation of internal and external regulations which may be applied to the Group by management or employees, including those related to the reliability of financial and non-financial information and tax risks.

- **Corporate governance risks**: arising from non-compliance with the Group's Corporate Governance System, which regulates the operation of the Governing Bodies and their relationship with stakeholders, the commitment to ethical principles, good practices and transparency, and which is designed around corporate interest defense and the creation of sustainable value.

Due to its global scope in risks, the Risk Management System is **constantly being updated** to incorporate new risks that may affect the Group as a result of changes in the environment or of goal and strategies revision, as well as those updates that originate from lessons learned from monitoring and controlling the system.

In order to avoid duplication between the risk information contained in the notes to the consolidated financial statements of the Arteche Group and the management report, the **information on the main risks and uncertainties** is found in the following sections of the consolidated financial statements and the Statement of Non-Financial Information:

- Financial risk management: Note 5

- Financial risk factors: Note 5.1

    - Credit risk
    - Market risk (interest rate, currency, energy and raw material costs)
    - Liquidity risk
    - Debt and solvency risk

- Estimation of fair value: Note 5.2

- Armed conflict: Note 1.1

- Climate change: Note 1.2

- Sustainability: 2023 Statement of Non-Financial Information

Average Payment Period for Suppliers

During 2023, the average payment period of the Companies located in Spain was 85 days, as indicated in note 18.2 of the notes to the consolidated annual accounts.

Events After Year-end Closing

Subsequent to year-end, and up to the date of drafting these consolidated financial statements, no significant events have occurred that could have a material effect on the 2023 financial statements.

Non-Financial Information Statement - Sustainability Report

In accordance with Law 11/2018 amending the Commercial Code, the Consolidated Text of the Capital Companies Act and the Audit Law, regarding non-financial information and diversity, the 2023 Statement of Non-Financial Information is included as an Appendix to the Consolidated Management Report.

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APPENDIX: ALTERNATIVE PERFORMANCE MEASURES (APM)

APM	Unit	Definition	2023	2022	Usefulness
Revenue at selling price	Thousand euro	Revenues — change in inventories at selling price	416,625 Thousand euro = 401,256 + 15,369	347,503 Thousand euro = 345,903 + 1,600	APM used to measure production and other revenue at selling price.
Direct costs	Thousand euro	Supplies (excluding depreciation and extraordinary costs) + Direct personnel costs + Other direct operating profit	283,018 Thousand euro = 226,984 + 34,717 + 21,317	244,458 Thousand euro = 197,270 + 28,493 + 18,694	APM used by Management to measure operating expenses directly attributable to each operational segment.
Gross margin	Thousand euro	Revenue at selling price - direct costs	133,607 Thousand euro = 416,625 - 283,018	103,045 Thousand euro = 347,503 - 244,458	APM of operating profitability used to assess the generation of profit/(loss) at selling price excluding those expenses that are not directly attributable to operational segments.
% gross margin	%	Gross margin / Revenue at selling price	32.1% = 133,607 / 416,625	29.7% = 103,045 / 347,503	APM % operating profitability to assess the generation of profit at selling price without indirect costs.
Gross operating profit/(loss) (EBITDA)	Thousand euro	Operating profit + Depreciation of property, plant and equipment + Impairment of trading income + Impairment of merchandise + Impairment of work in progress and finished goods + Property losses and impairment losses	40,692 Thousand euro = 24,240 + 14,618 - 59 + 524 + 1,137 + 232	30,126 Thousand euro = 14,322 + 14,667 + 44 + 306 + 787	APM of operating profitability excluding interest, taxes, depreciation and amortization. Used by management to assess the operating cash flow generation capacity of the operating segments.
% EBITDA	%	EBITDA / Net business revenue	10.1% = 40,692 / 401,256	8.71% = 30,126 / 345,903	APM % of operating profitability excluding interest, taxes, depreciation and amortization.

APM	Unit	Definition	2023	2022	Usefulness
Gross Financial Debt (GFD)	Thousand euro	Bank borrowings + other financial liabilities +financial lease creditors + bonds and other marketable securities (all long and short term) - no-cost financing +/- accrued interest and commissions	104,207 Thousand euro = 55,192 + 41,039 + 203 +13,800 - 6,173 + 146	107,498 Thousand euro = 39,180 + 53,883 + 164 +26,000 - 11,729 + 0	APM used by Management to assess the gross debt level, considering financing with costs only
Net Financial Debt (NFD)	Thousand euro	DFB - Short-term financial investments - loans to companies (non-group) - cash and cash equivalents	41,707 Thousand euro = 104,207 - 1,590 - 150 - 60,760	49,019 Thousand euro = 107,498 - 2,266- 56,213	APM used by management to assess the level of net debt.
Net Financial Debt / EBITDA	X times	NFD / EBITDA	1.02x = 41,707 / 40,994	1.63x = 49,019 / 30,126	APM, the purpose of which is to show the Group's degree of leverage, based on the NFD operational flow payment.
Profit per share (basic and diluted)	€/share	Profit/(loss) attributed to the Parent Company / (weighted average issued shares - weighted average treasury stock)	0.21 € = 12,063 / (57,094 - 136)	0.13 € = 7,686 / (57,094 - 140)	Income attributable to holders of ordinary instruments of the Company. The basic and diluted Arteche shares do not differ, since only common shares are issued.

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Preparation of the Consolidated Financial Statements and Consolidated Management Report for 2023

On March 18, 2024, and in compliance with the requirements established in Article 253 of the Capital Companies Act and Article 37 of the Code of Commerce, the Board of Directors of the Arteche Lantegi Elkartea, S.A. company proceeds to prepare the Consolidated Financial Statements and the Consolidated Management Report for the year ended December 31, 2023, which are constituted by the documents attached hereto.

Ziskua Ber, S.L. represented by Mr. Lander Arteche Eguia	Mr. Alexander Artetxe Panera
Mr. José María Abril Pérez	Mr. Luis Aranaz Zuza
Mr. Guillermo Ulacia Arnáiz	Mr. Dámaso Quintana Pradera
Mr. Pablo Ramallo Taboada	Gestión de Capital Riesgo del País Vasco SGEIIC, S.A. represented by Mr. Zigor Urkiaga
Eladia, Eladia Pulido Arroyo	