ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries

Consolidated Annual Financial Statements and Consolidated Management Report for the tax year ended December 31, 2022

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ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated balance sheet as of December 31, 2022
(Expressed in thousands of euros)

ASSET	Notes	2022	2021
NON-CURRENT ASSETS		**108750**	**101690**
Intangible assets		**48752**	**48862**
Consolidation goodwill	6	22000	24297
Other intangible assets	7	26752	24565
Property, plants and equipment	**8**	**32542**	**27644**
Land and buildings		8301	7872
Technical facilities and other property, plants and equipment		20148	16078
In-progress tangible assets and prepayments		4093	3694
Real estate investments		**149**	**149**
Land		149	149
Investments in group companies and associates		**307**	**307**
Equity-accounted shareholdings		307	307
Long-term financial investments	**9**	**2976**	**1583**
Equity instruments	3.3 and 9	245	323
Loans to third parties	9 and 11	270	320
Derivatives	9 and 18.2	1347	15
Other financial assets	9 and 11	1114	925
Non-current receivables from public administrations	**19**	**1218**	**1073**
Deferred tax assets	**19**	**22806**	**22072**
CURRENT ASSET		**210694**	**183633**
Inventories	**10**	**72180**	**61786**
Goods for resale		398	228
Raw and sundry materials		32937	25358
Work in progress		15975	18228
Finished products		21624	17040
By-products, residues and materials recovered		286	278
Prepayments to suppliers		960	654
Trade and other receivables	**11**	**78380**	**60399**
Trade receivables for sales and service rendering	11	54586	38636
Sundry receivables	11	1903	938
Personnel	11	142	54
Other receivables from public administrations	19	21749	20771
Short-term financial investments		**3305**	**2011**
Loans to companies	9 and 11	116	49
Derivatives	9 and 18.2	1074	268
Other financial assets	9	2115	1694
Short-term accruals		**616**	**728**
Cash and cash equivalents	**12**	**56213**	**58709**
TOTAL ASSETS		**319444**	**285323**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated balance sheet as of December 31, 2022
(Expressed in thousands of euros)

NET EQUITY AND LIABILITIES	Notes	2022	2021
NET EQUITY		**69043**	**58514**
CAPITAL AND RESERVES		**99475**	**91571**
Issued capital	**13.1**	**5709**	**5709**
Authorized capital		5709	5709
Issue premium	**13.2**	**50180**	**50180**
Other reserves of the Parent Company	**13.3**	**87715**	**90499**
Legal and by-law reserves		1142	990
Other reserves		86573	89509
Reserves in consolidated companies	**13.3**	**(51,312)**	**(62,985)**
Parent Company shares	**13.5**	**(503)**	**(375)**
Profit / loss for the tax year attributed to the Parent Company	**14**	**7686**	**8543**
Consolidated profit and loss		8332	8717
Profit and loss attributed to external partners		(646)	(174)
MEASUREMENT ADJUSTMENTS		**(38,546)**	**(40,598)**
Exchange differences of consolidated companies	**15.1**	**(40,102)**	**(40,487)**
Hedging transactions	**15.2**	**1556**	**(111)**
GRANTS, DONATIONS AND BEQUESTS RECEIVED		**1936**	**1829**
In consolidated companies		1936	1829
EXTERNAL PARTNERS	**16**	**6178**	**5712**
NON-CURRENT LIABILITIES		**68389**	**76450**
Non-current provisions	**17**	**2124**	**1938**
Non-current Social Security obligations		1308	1004
Other provisions		816	934
Non-current creditors	**18**	**62329**	**71591**
Bank borrowings	18.1	26138	37544
Financial lease creditors	18.1	59	485
Derivatives	15 and 18.2	-	1046
Other financial liabilities	18.2	36132	32516
Deferred tax liabilities	**19**	**3936**	**2921**
CURRENT LIABILITIES		**182012**	**150359**
Current provisions	**17**	**876**	**1369**
Current creditors	**18**	**57530**	**55220**
Liabilities and other negotiable securities	18.2	26000	27500
Bank borrowings	18.1	12531	15241
Financial lease creditors	18.1	111	514
Derivatives	15 and 18.2	1138	1377
Other financial liabilities	18.2	17750	10588
Trade and other payables		**123606**	**93770**
Suppliers	18	74937	59899
Sundry payables	18	18677	15148
Personnel (accrued wages and salaries)	18	5268	2553
Current tax liabilities	19	2267	788
Other payables to Public Administrations	19	11197	9903
Customer advances	18	11260	5479
TOTAL OF NET EQUITY AND LIABILITIES		**319444**	**285323**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated income statement for the tax year ended December 31, 2022
(Expressed in thousands of euros)

	Notes	2022	2021
CONTINUING OPERATIONS			
Revenues	20.2	**345903**	**282033**
Sales		332988	274722
Service rendering		12915	7311
Changes in inventories of finished products and work in progress		**1194**	**6546**
Work performed by the entity and capitalized	7.1	**5942**	**5143**
Procurements	20.3	**(197,576)**	**(161,855)**
Consumption of raw materials, goods for resale and others		(178,195)	(145,819)
Subcontracted work		(19,075)	(15,874)
Impairment of goods purchased for resale, raw materials and others		(306)	(162)
Other operating income		**2901**	**1542**
Sundry and other income		2307	1272
Operating grants released to profit / loss during the tax year		594	270
Personnel costs	20.4	**(83,511)**	**(68,997)**
Wages, salaries and similar remuneration		(65,365)	(53,484)
Social security		(18,146)	(15,513)
Other operating expenses		**(49,466)**	**(40,732)**
External services	20.5	(48,386)	(39,218)
Taxes		(856)	(727)
Losses, impairment and changes in trade provisions	11	(44)	(654)
Other operating expenses		(180)	(133)
Depreciation of fixed assets	6, 7 and 8	**(14,667)**	**(11,615)**
Grants related to non-financial assets and others		**634**	**314**
Impairment and profit / loss on disposals of assets		**(25)**	**165**
profit / loss on disposals and other items		(25)	165
Profit / loss associated with loss of control of consolidated investments	2.4	**3055**	**-**
Profit / loss associated with loss of control of a dependent		1497	-
Profit / loss attributed to the interest		1558	**-**
Other gains or losses		**(62)**	**(28)**
OPERATING PROFIT / LOSS		**14322**	**12516**
Finance income	2.4	**255**	**3760**
From equity instruments		255	3760
Finance costs		**(5,475)**	**(4,144)**
From third parties		(4,635)	(4,002)
On adjustments to provisions		(143)	(142)
Net monetary profit or loss		(697)	-
Exchange differences		**2010**	**2065**
Impairment and profit / loss on disposals of financial instruments		**(327)**	**(352)**
Impairment losses and losses		(327)	(352)
FINANCIAL PROFIT / LOSS		**(3,537)**	**1329**
PRE-TAX PROFIT		**10785**	**13845**
Corporate income tax	19.1	**(2,453)**	**(5,128)**
PROFIT / LOSS FOR THE TAX YEAR FROM CONTINUING OPERATIONS		**8332**	**8717**
PROFIT / LOSS FOR the tax year		**8332**	**8717**
Profit / loss attributed to the Parent Company		**7686**	**8543**
Profit / loss attributable to external partners	16	**646**	**174**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in net equity for the tax year ended December 31, 2022
(Expressed in thousands of euros)

A) Statement of recognized income and costs for the tax year ended December 31, 2022

	Notes	2022	2021
CONSOLIDATED PROFIT / LOSS FOR the tax year		**8332**	**8717**
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN CONSOLIDATED NET EQUITY			
Exchange differences	15.1	385	(3,822)
On cash flow hedges	15.2	2265	(717)
Grants, donations and bequests received		775	694
Tax effect	15	(755)	(12)
External partners, net of taxes	16	(209)	496
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY TO CONSOLIDATED EQUITY		**2461**	**(3,361)**
TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT			
Grants, donations and bequests received		(634)	(314)
Tax effect		152	75
TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT		**(482)**	**(239)**
TOTAL CONSOLIDATED RECOGNIZED INCOME AND EXPENSES		**10311**	**5117**
Profit / loss for the tax year attributed to the Parent Company		**9888**	**4461**
Profit / loss attributable to external partners		**466**	**656**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated statement of changes in net equity for the tax year ended December 31, 2022
(Expressed in thousands of euros)

B) Statement of total changes in consolidated net equity for the tax year ended December 31, 2022

	Capital stock (Note 13.1)	Issue premium (Note 13.2)	Other reserves of the Parent Company (Note 13.3)	Reserves in consolidated companies (Note 13.3)	Treasury shares and equity interests (Note 13.5)	Profit / loss for the tax year attributed to the Parent Company	Conversion differences affecting consolidated companies (Note 15.1)	Hedging transactions (Note 15.2)	Grants, donations and bequests received	External partners (Note 16)	TOTAL
CLOSING BALANCE 2020	**4948**	**20942**	**81889**	**(53,118)**	**-**	**1029**	**(36,665)**	**437**	**1541**	**5056**	**26059**
Total consolidated recognized income and expenses	-	-	-	-	-	8543	(3,822)	(548)	288	656	5117
Transactions with partners or owners											
Capital increase (Note 13.1)	761	29238	(2,577)	-	-	-	-	-	-	-	27422
Transactions involving treasury stock or shares (net)	-	-	-	-	(375)	-	-	-	-	-	(375)
Other changes in consolidated net equity											
Application of consolidated profit for the tax year 2020	-	-	1029	-	-	(1,029)	-	-	-	-	-
Impact of hyperinflation in Argentina (Note 2.5)	-	-	-	494	-	-	-	-	-	-	494
Other transactions	-	-	10158	(10,361)	-	-	-	-	-	-	(203)
CLOSING BALANCE 2021	**5709**	**50180**	**90499**	**(62,985)**	**(375)**	**8543**	**(40,487)**	**(111)**	**1829**	**5712**	**58514**
Total consolidated recognized income and expenses	-	-	-	-	-	7686	385	1667	107	466	10311
Transactions with partners or owners											
Dividends (Note 13.4)	-	-	(2,563)	-	-	-	-	-	-	-	(2,563)
Transactions involving treasury stock or shares (net) (Notes 13.5)	-	-	-	-	(128)	-	-	-	-	-	(128)
Other changes in consolidated net equity											
Application of consolidated profit for the tax year 2021	-	-	(3,629)	12172	-	(8,543)	-	-	-	-	-
Impact of hyperinflation in Argentina (Note 2.5)	-	-	-	1175	-	-	-	-	-	-	1175
Impact of hyperinflation in Turkey (Note 2.5)	-	-	-	2656	-	-	-	-	-	-	2656
Other transactions	-	-	3408	(4,330)	-	-	-	-	-	-	(922)
CLOSING BALANCE 2022	**5709**	**50180**	**87715**	**(51,312)**	**(503)**	**7686**	**(40,102)**	**1556**	**1936**	**6178**	**69043**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Consolidated Cash Flows Statement for the tax year ended December 31, 2022
(Expressed in thousands of euros)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / loss for the tax year from continuing operations before income taxes		**10785**	**13845**
Adjustments to profit / loss		**17918**	**12470**
Depreciation of fixed assets	6, 7 and 8	14667	11615
Impairment adjustments		1484	2133
Variation in provisions		(306)	(1,368)
Grant allocations		(634)	(314)
Profit / loss on write-off and disposal of assets		25	(165)
Profit / loss on write-off and disposal of financial assets		-	185
Profit / loss associated with loss of control in consolidated investments	2.4	(3,055)	
Finance income		(255)	(3,760)
Finance costs		4778	4144
Net monetary profit or loss (*)		697	
Other income/expenses		517	-
Changes in working capital		**293**	**(10,651)**
Inventories		(10,366)	(9,703)
Trade and other receivables		(17,778)	(4,864)
Other current assets		112	820
Trade and other payables		27014	7346
Other current liabilities		-	(12)
Effect of exchange differences on the working capital of foreign companies		1311	(4,395)
Other non-current assets and liabilities		-	157
Other cash flows from operating activities		**(7,271)**	**(7,808)**
Interest paid		(4,635)	(4,002)
Interest received		255	181
Income tax receipts (payments)		(2,891)	(3,987)
CASH FLOWS FROM OPERATING ACTIVITIES		**21726**	**7,856**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(20,791)**	**(21,217)**
Intangible assets	7	(6,904)	(6,007)
Property, plants and equipment	8	(7,077)	(6,147)
Other financial assets		(1,462)	-
Acquisition of group companies, associates and jointly controlled entities	2.4	(5,348)	(9,063)
Divestment proceeds		**3610**	**5864**
Group companies and associates		2	4
Property, plants and equipment		13	816
Other financial assets		3595	5044
CASH FLOWS FROM INVESTING ACTIVITIES		**(17,181)**	**(15,353)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments		**(2,440)**	**27742**
Acquisition of equity instruments	13.5	(128)	(375)
Issue of equity instruments	13.1	-	27422
Dividends paid	13.4	(2,563)	-
Grants, donations and bequests received		251	695
Proceeds from and payments on financial liability instruments		**(4,601)**	**7904**
Issuance			
Liabilities and other negotiable securities	18	26000	27500
Bank borrowings	18	12531	15241
Other payables	18	17661	10592
Repayment and depreciation of			
Liabilities and other negotiable securities	18	(27,500)	(14,000)
Bank borrowings	18	(26,648)	(26,824)
Other payables	18	(6,645)	(4,605)
CASH FLOWS FROM FINANCING ACTIVITIES		**(7,041)**	**35646**
NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS		**(2,496)**	**28149**
Cash and cash equivalents at the beginning of the tax year	**12**	**58709**	**30560**
Cash and cash equivalents at year-end	**12**	**56213**	**58709**

(*) Separated from the effect of hyperinflation on finance costs

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 conducted in Spain or abroad, and may be conducted either directly (fully or partially) by Arteche Lantegi Elkartea, S.A. through the ownership of shares or other equity investments in companies with an identical or 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 “Group”). Therefore, in addition to its own individual annual financial statements, the Parent Company is required to draft consolidated annual financial statements 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, 2022 and 2021, the Arteche Group activity is structured into the following business units:

- “Measuring & 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” or automation of transportation and distribution networks groups together the manufacture and commercialization of relays, relays for the railway industry, automation of networks and electric systems.

<u>Process of stock launch in BME Growth</u>

The Parent Company announced the launch of its securities for trade on Friday, June 11, 2021 within the BME Growth trading segment of BME MTF Equity (multilateral trading facility).

1.1 Ukraine-Russia conflict

The Ukraine-Russia conflict that began in February 2022 poses a risk of uncertainty in global markets due to possible embargoes or sanctions that may be applied to companies in those markets or possible disruptions in supply chains.

As of December 31, 2022, the Group has no assets in either Russia or Ukraine and turnover in both countries has been immaterial.

The indirect impacts of this conflict are evident in the supply chain, as well as in the higher prices of energy and other raw materials such as copper. Although the Group's production processes are not electricity-intensive, contracts with electricity utilities in European plants have been renegotiated. In the case of commodities such as copper, in addition to the supplier and market diversification measures monitored by the Purchasing Department, in 2023 the Group began to contract financial derivatives (commodity swaps) to hedge their volatility.

Additionally, the increase in inflation and interest rates during the tax year 2022, derived from this geopolitical risk, has been considered in the discount rates applied and the sensitivity analysis performed on the recoverability tests of non-financial assets, including goodwill (Notes 6 and 7).

1.2 Climate change

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

The Arteche Group, through its 2030 Sustainability Strategic Plan, has defined short and long term emission reduction objectives, taking as a reference the carbon footprint calculations for the tax year 2021.

During the tax year 2022, and with the objective of responding to the development of actions to mitigate the risks and opportunities of climate change, work has been done to specify its Risk Management System to the emerging risks of climate change. For this purpose, 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 Finance. The project started in 2022 by assessing the physical risks (acute and chronic) at each location. In 2023, a more comprehensive analysis of transition risks (regulatory, market, technological, reputational, etc.) will be addressed, according to TCFD.

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

The corporate EHS (Environment, Health and Safety) Department is 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 the tax year 2022:

- Environmental performance measurement by the CDP (Carbon Disclosure Project), obtaining the same rating as the average of the companies in our sector and the global average of disclosures made (C)

- Commitment to the SBTi (Science-Based Targets Initiative), with the development and implementation of our science-based targets.

As of December 31 in 2022 and 2021, the Group's production facilities were not located in areas or geographical zones where an imminent climate risk is foreseen, which should be considered in the assumptions of recoverability of non-financial assets, including goodwill. In this regard, for the assumptions used in the asset impairment analysis described in Notes 6 and 7, the Group has considered macroeconomic variables that implicitly take into account the impacts that climate change may have in each of the geographical areas in which it operates.

In the Non-Financial Statement (Sustainability Report) for the tax year 2022, an integral part of the consolidated Management Report, further references to climate change are included in the section on TCFD and EU Taxonomy.

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 external partners in the net equity and the profit of consolidated subsidiaries is presented in the heading "External Partners" under "net equity" in the consolidated balance sheets and in "Profit attributed to external partners" in the consolidated profit / loss 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-accounted shareholdings” 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 profit / loss statement under “Shares in profits /losses 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 the tax years 2022 and 2021 are as follows:

<u>Tax year 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 in Arteche Hitachi Energy Instrument Transformers, S.L. (previously known as Arteche Gas Insulated Transformers, S.L.U.) for 3,754 thousand euros to Hitachi Energy Ltd. These shares represented 49% of the capital stock of this company, thus becoming jointly controlled. 1,497 thousand was recorded under the heading "Profit / loss associated with loss of control in consolidated investments - Profit / loss associated with loss of control of a dependent" in the consolidated profit / loss statement.

The detail of net assets disposed of at their value on the date of sale was as follows:

In thousands of euros	Arteche Hitachi Energy Instrument Transformers, S.L.
NON-CURRENT ASSETS	**1010**
Intangible assets	360
Property, plants and equipment	176
Long-term financial investments	11
Deferred tax assets	463
CURRENT ASSET	**2388**
Inventories	1379
Trade and other receivables	850
Cash and cash equivalents	159
TOTAL ASSETS	**3398**

In thousands of euros	Arteche Hitachi Energy Instrument Transformers, S.L.
GRANTS, DONATIONS AND BEQUESTS RECEIVED	**20**
NON-CURRENT LIABILITIES	**7**
Deferred tax liabilities	7
CURRENT LIABILITIES	**1114**
Trade and other payables	1114
CAPITAL AND RESERVES	**2257**
SALE PRICE	**3754**
RESULTING PROFIT	**1497**

As a result of this transaction, the Group has also recorded the percentage of ownership it holds (51%) at fair value, recording income amounting to 1,558 thousand euros under the heading "Profit / loss associated with loss of control in consolidated investments" in the accompanying consolidated income statement and an intangible asset for the same amount, together with the related deferred tax liability of 374 thousand euros.

The net sales and the loss contributed by the disposed 49% of the aforementioned company, between January 1, 2022 and the date of the transaction, amounted to 1,185 thousand euros and 239 thousand euros, respectively. As of May 2, 2022, the Arteche Group consolidates this company by the proportional integration method.

Tax year 2021

Esitaş Elektrik Sanayi ve Ticaret A.Ş

On July 9, 2021 Arteche Instrument Transformers, S.L. acquired 50,000 shares of Esitaş Elektrik Sanayi ve Ticaret A.Ş, which constitute 100% of the share capital for an estimated amount of 17,351 thousand euros at acquisition date. At the end of the 2021 tax year, the amount paid for the purchase in July 2021 amounted to 6,424 thousand euros, with two additional payments having been made in February and May 2022 for the amounts of 648 and 2,764 thousand euros respectively, with an estimated payment still pending (as of December 31, 2022) of 6,906 thousand euros maturing in May 2023, the final amount of which is subject to the evolution of certain financial parameters of the acquired company. Contingent payments were hedged with foreign exchange insurance, resulting in net cash outflows for the Group of 939 thousand euros and 3,786 thousand euros in February and May 2022, respectively.

During the process of identification of the assets acquired and the liabilities assumed, an amount of 983 thousand euros was allocated to intangible assets for the measurement of the acquired customer portfolio with the corresponding 216 thousand euros in deferred tax. The fair value of this portfolio has been determined by an independent third-party expert. The receivables acquired as a result of the business combination were assessed for possible impairment losses from trade receivables. Following the analysis performed, an impairment of trade receivables for an amount of 536 thousand euros was recorded. 12,010 thousand was recorded under the “Goodwill” heading as of December 31, 2021.

The accounting for this business combination was determined on a provisional basis. Adjustments to provisional valuations that became necessary as a result of new information on facts and circumstances existing on the date of acquisition that became apparent no later than twelve months after the acquisition date were to be recorded retrospectively. During the tax year 2022, the Group re-estimated goodwill, recording an increase in goodwill of 3,310 thousand euros, based on the updated estimate of the last contingent payment scheduled for May 2023.

PT Esitaş Pacific

On August 6, 2021, the Arteche Instrument Transformers, S.L. and the Arteche Smart Grid, S.L.U. group companies acquired 16,489 and 11 shares, respectively, of PT Esitaş Pacific, constituting 100% of the latter’s share capital for an estimated total amount of 1,538 thousand euros at acquisition date. On 31 December 2021 the amount paid totalled Euros 676 thousand, with two additional payments of 365 thousand euros and 277 thousand euros made in February and May 2022, respectively, and an estimated payment of 287 thousand euros due in May 2023, the final amount of which is subject to the evolution of certain financial parameters of the acquired company. Contingent payments were hedged with foreign exchange insurance, resulting in net cash outflows for the Group of 367 thousand euros and 256 thousand euros in February and May 2022, respectively.

As a result of this transaction and of the identification process for the assets acquired and liabilities assumed, the Group recorded 335 thousand euros under “Goodwill” as of December 31, 2021.

During the tax year 2022, the Group re-estimated its goodwill, recording an increase of 121 thousand euros based on the update of the estimate of the last contingent payment.

Smart Digital Optics Pty. Ltd

On December 21, 2021, the Arteche Group company Instrument Transformers, S.L., purchased 94,299 shares in the Smart Digital Optics Pty. Ltd. Company, amounting to 3,500 thousand euros, thereby acquiring control of the company. Said shares represented 42.4% of the share capital of Smart Digital Optics Pty. Ltd. Up to that date, the Arteche Group held the remaining 57.6% of the capital of this company, but without the capacity to control it, with a disbursement of 4,755 thousand euros.

As a result of this transaction, the Group recorded 9,076 thousand euros under "Goodwill", and derecognized the net book value of the goodwill existing at the date of the transaction for the amount of 1,700 thousand euros.

As a result of this transaction, the Group also recorded the previous percentage interest it held at fair value, recording a financial income of 3,579 thousand euros in 2021.

Other companies

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

The resulting goodwill consists mainly of any future economic benefits derived from the acquired company's own activity that do not meet the conditions for separate accounting recognition at the time of the business combination.

2.5 Effect of considering Argentina and Turkey hyper-inflated countries in 2022

As a result of the classification of Argentina as a hyper-inflated country since July 2018, with Turkey likewise classed since April 2022, the Group annually reviews its disclosure policies regarding the effects of the hyper-inflationary situation currently affecting the Argentine and Turkish economies and two of its subsidiaries located in Argentina (AIT, S.A. and ZB Inversiones, S.A.) and 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 net 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 Income Statement.

- 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 profit / loss and another under effective cash flow statement, respectively.

- Converting the components of the financial statements of AIT, S.A., ZB Inversiones, S.A. and Esitaş Elektrik Sanayi ve Ticaret A.Ş at the closing exchange rate, with the corresponding exchange rate as of December 31, 2022 being 188.96 pesos per euro (116.59 pesos per euro as of December 31, 2021) for Argentina and 19.94 lire per euro for Turkey.

Argentina

The main impacts on the consolidated financial statements of the Arteche Group for the tax years ended December 31, 2022 and 2021 arising from hyperinflation in Argentina are as follows (in thousands of euros):

ASSET	**Notes**	**31/12/2022**	**31/12/2021**
NON-CURRENT ASSETS		**1597**	**712**
Intangible assets	7	8	-
Property, plants and equipment	8	1589	708
CURRENT ASSET		**75**	**14**
Inventories		75	14
TOTAL ASSETS		**1672**	**726**

NET EQUITY AND LIABILITIES	**Notes**	**31/12/2022**	**31/12/2021**
NET EQUITY		**1175**	**494**
CAPITAL AND RESERVES		**1175**	**494**
Reserves in consolidated companies		1175	494
NON-CURRENT LIABILITIES		**497**	**232**
Deferred tax liabilities	19	497	232
TOTAL OF NET EQUITY AND LIABILITIES		**1672**	**726**

The equity effects of hyperinflation are shown under the heading "Reserves in consolidated companies." In the tax year 2022, the total impact on net equity amounts to 1,175 thousand euros (494 thousand euros in 2021). The impact of hyperinflation in Argentina on the consolidated income statement is not significant.

In addition, as a result of the disposal in the tax year 2022 of the fixed assets of the company AIT, S.A., the hyperinflation adjustment for 2022 decreased by 20 thousand euros, the effect of which was recorded under "Reserves in consolidated companies" (69 thousand euros at the end of 2021).

Turkey

The main impacts on the Arteche Group's consolidated financial statements as of December 31, 2022 based on hyperinflation in Turkey are as follows (in thousands of euros):

ASSET	Notes	31/12/2022
NON-CURRENT ASSETS		**749**
Property, plants and equipment	8	749
CURRENT ASSET		**907**
Inventories		907
TOTAL ASSETS		**1656**

NET EQUITY AND LIABILITIES	Notes	31/12/2022
NET EQUITY		**1292**
CAPITAL AND RESERVES		**1292**
Reserves in consolidated companies		2656
Profit / loss for the tax year		(1,364)
NON-CURRENT LIABILITIES		**364**
Deferred tax liabilities	19	364
TOTAL OF NET EQUITY AND LIABILITIES		**1656**

The effects of hyperinflation are presented in the line "Reserves in consolidated companies" and in each of the headings of the consolidated income statement. In the tax year 2022 the total impact of hyperinflation in Turkey on net equity amounts to 1,292 thousand euros (positive) and on the consolidated income statement 1,364 thousand euros (negative), which includes, among other factors, the loss of the net monetary position for a gross amount of 697 thousand euros.

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

3.1 Fair presentation

The consolidated annual financial statements for the tax year 2022 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 financial statements are presented in accordance with applicable commercial legislation as established by the Spanish Commercial Code, amended by Law 16/2007, dated July 4, which reforms and adapts accounting legislation for international harmonization based on European Union legislation, Royal Decree 1514/2007, dated November 20, which approves the General Accounting Plan, which since its publication has undergone several amendments, the last of which was made by Royal Decree 1/2021, dated January 12, and Royal Decree 1159/2010, dated September 17, which approves the rules for preparing consolidated annual financial statements 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 profit / loss, as well as a reliable presentation of cash flows reflected in the consolidated cash flow statement.

These consolidated annual financial statements, which were prepared by the Board of Directors of Arteche Lantegi Elkartea, S.A. on March 22, 2023, will be submitted for approval by the General Shareholders' Meeting, and it is expected that they will be approved without any modifications.

The Group's consolidated annual financial statements for the tax year 2021 were approved by the General Shareholders' Meeting of Arteche Lantegi Elkartea, S.A. held on May 11, 2022 and deposited in the Mercantile Registry of Bizkaia.

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 Income Statement, consolidated statement of changes in net equity, and the consolidated cash flow statement, in addition to the figures for the tax year 2022, those corresponding to the prior year are likewise presented. Quantitative information for the previous tax 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.

(Expressed in thousands of euros)

The companies that are immaterial to a true and fair view of the Group are not consolidated. All subsidiaries and associates were included in the 2021 and 2022 consolidated annual financial statements, except for the following subsidiaries and associates that were excluded due to the fact that they are immaterial:

Company	% interest
Arteche Middle East, J.L.T.	100.00%
Smart Grid India PVT	100.00%
	-

The company Basque Electrical Laboratories Alliance AIE, excluded from the consolidated annual financial statements for the tax year 2021, was liquidated in January 2022.

The assets and profit / loss presented by those companies are not sufficiently significant to affect the true and fair view of the Group and are stated in the consolidated balance sheet under the heading “Non-current investments in associates.”

Additionally, the Group held a 7.65% stake in the company Farsens, S.L., which was liquidated on July 12, 2021.

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

3.4 Grouping of sections

For the purposes of facilitating the understanding of the consolidated balance sheet, income statement, statement of changes in net 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 financial statements 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 profit / loss. 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 tax 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 tax year-end, from both a technical and economic standpoint.

Provisions and contingent liabilities

The Group recognizes provisions for risks, in accordance with the accounting policy indicated in Note 4.19 of the consolidated report. 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 income 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 income tax and the provisions for deferred taxes in the tax 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 net equity and hedging derivatives that are not traded in active markets.

Impairment of trade receivables

The allowance for doubtful accounts involves the review of individual balances based on the credit quality of customers, current market trends and historical analysis of bad debts at the aggregate level by the Group's 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 net 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 net 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 financial statements 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 financial statements takes place at the same date and for the same period as the annual financial statements 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 financial statements 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 financial statements previously made uniform are aggregated according to their nature.

4. Elimination of investment-net equity. The carrying amounts representing subsidiaries' net equity instruments held directly or indirectly by the Parent Company are offset by the proportional part of the net 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 tax year in which control is obtained, the excess or shortfall in net 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 external partners is recorded under "External Partners."

5. Participation by external partners. External partners are measured on the basis of the effective interest held in the net equity of the subsidiary following the above adjustments. Consolidation goodwill is not attributed to external partners. The excess between the losses attributable to external partners of a subsidiary and the net 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 financial statements 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 net 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 external partners in the income and expenses generated by the subsidiary during the tax year up until the loss of control, and income and expenses recorded directly under net equity are transferred to the Income Statement.

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 financial statements the portion of the jointly-controlled company's assets, liabilities, expenses, income, cash flows and other items which relates to the percentage stake in net 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 net 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' net equity interest in the jointly-controlled company

- No item is recorded with respect to external partners 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 net equity method is first applied, the Company's interest is measured at the amount of net 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-accounted 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 profit / loss generated by equity consolidated companies are recognized as of 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 net equity, after having eliminated the unrealized profit / loss generated on transactions between that company and Group companies.

Changes in the value of the shareholding relating to other changes in net equity are shown in the relevant net 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 depreciation 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 profit / loss 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 type of resources are also 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 tax year. Capitalized development costs that have a finite useful life are depreciated 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 undepreciated portion is expensed in the tax year the circumstances change.

The depreciation 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 depreciated 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 tax 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 has been obtained. These costs are depreciated on a straight-line basis over the 50 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 depreciation 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 Computer applications

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 depreciated 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 depreciated on a straight-line basis over its useful life, which is generally estimated to be 10 years.

4.4 Property, plants and equipment

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

After initial recognition, property, plants 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 Income Statement for the tax 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, plants 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, plants and equipment:

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

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

4.5 Real estate investments

Investment properties consist of office buildings 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 at their acquisition cost less any accumulated depreciation and impairment.

Depreciation is applied to investment properties on a straight-line basis in accordance with the estimated useful lives of the assets concerned, which is 25 years.

4.6 Interest expense

Finance costs directly attributed to the acquisition or construction of property, plants and equipment that require more than one year to be prepared for use are 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, deducting any liabilities assumed.

After initial recognition goodwill is recorded at cost, less accumulated depreciation 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 depreciation 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 either the fair value or present value (whichever is lowest) 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 finance costs and the reduction of the liability. The lease's full financial burden is charged to the consolidated income statement in the tax 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

Classification and measurement

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 the Income Statement
- Financial assets at depreciated cost
- Financial assets at fair value with changes in net equity
- Financial assets at cost

Financial assets at fair value with changes in the Income Statement

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 the Income Statement (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 for the tax year (i.e. they are not capitalized).

After initial recognition, the Group measures the financial assets in this category at fair value with changes in the Income Statement (financial profit / loss).

Financial assets at depreciated 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 service rendering") 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 depreciated cost method is used for subsequent measurement. Accrued interest is recognized in the income statement (finance income) 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 depreciated 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 depreciated 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 the income statement 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 net equity

A financial asset is to 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 depreciated 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 the Income Statement” 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 net 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. For these purposes, a financial asset is derecognized when it has matured and the Group has received the corresponding amount.

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

4.11 Impairment of the value of financial assets

Debt instruments at depreciated cost or fair value with changes in net 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 annual 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 it representative of the value that could be recovered by the company.

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

Net equity instruments at fair value with changes in net 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 net equity, and is recognized in the income statement. However, in the event of an increase in the fair value of a net 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 net 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 net equity instruments, the impairment loss estimate on this type of asset is calculated on the basis of the investee company's net 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 depreciated cost
- Financial liabilities at fair value with changes in the Income Statement

All of the Group's financial liabilities are in the "Financial liabilities at depreciated 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 depreciated 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. Accounting via hedging transactions 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 tax 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 net equity. They are charged to the consolidated income statement in the tax years in which the forecast hedged transaction affects profit or loss, unless the hedge relates to a forecast transaction that profit / loss in the recognition of a non-financial asset or liability, in which case the amounts recorded in net 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 Inventories

Inventories are measured at cost or at their net realizable value (whichever is lowest). 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, finance costs is included in the cost under the same terms established for assets.

4.15 Net Equity

Share capital consists of ordinary shares.

The costs of issuing new shares or options are recognized directly in net 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 net 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 net 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 assets.
- 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 net 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 capital and reserves.

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, plants and equipment, and investment properties are recognized as income for the tax year in proportion to the 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 tax year in which the relevant expenses accrue, together with those grants allocated to offset operating deficits of the tax 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 file consolidated tax returns with Arteche Lantegi Elkartea, S.A., the head of the consolidated tax group 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., Arteche Ventures, S.L., and Arteche Hitachi Energy Instrument Transformers, S.L. This tax group has been assigned the number 02918 BSC for administrative purposes. In the tax year 2022, Arteche Hitachi Energy Instrument Transformers, S.L. ceased to be part of the tax consolidation group as it does not meet the legal minimum shareholding requirement.

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 tax 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 net equity is recognized in net 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 tax 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 finance cost 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.”

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 tax year in which a valid expectation exists on the part of to 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 the 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 as of 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 financial statements are presented in euro, which is the Group's functional and presentation currency.

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

The translation of the annual financial statements 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.
- Net equity items, including profit for the tax year, are translated at the historic exchange rate.
- The difference between net assets and liabilities and net equity items is recognized in a net 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 external partners, 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 Income Statement for the period in which the investment in the consolidated company is sold or otherwise disposed of.

The historic exchange rate is:

- For net 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 net 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 profit / loss: 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 tax 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 tax 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, plants 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 net 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 financial statements at the transaction date.
- In mergers and spin-offs of a business, the items acquired are generally measured at the amount recorded in the consolidated annual financial statements, 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

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.

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.

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.

The maximum exposure to credit risk as of December 31, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	**2021**
Non-current financial investments (except equity instruments)	2731	1260
Trade and other receivables (except balances with public administrations)	56631	39628
Short-term financial investments	3305	2011
	62667	**42899**

As part of its policy to reduce exposure to risk, the 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 2022 tax year, 377 thousand euros have been recorded as impairment in the provision for significant bad debts charged to income for the period (in the 2021 the tax year an impairment of 445 thousand euros 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 Finance Department of credit control 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 Finance Department of credit control 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.

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 transaction 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, exchange rate risk, raw materials price 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 primarily due to the need to adequately structure financing, part of which is obtained through non-current loans and credit facilities that accrue a variable interest rate.

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. The hedging instruments that are specifically assigned to debt instruments have the same maximum nominal amounts.

The Arteche Group hedges interest rate risk on cash flows mainly through interest rate derivatives.

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 via the contracting of derivatives for a total notional value as of December 31, 2022 of 43.1 million euros, with the hedging of the interest rate variation risk of approximately 74% of the long-term debt contracted at a variable rate. If we also take into account the loans already contracted at a fixed rate, Arteche now has interest rate risk coverage for approximately 80% 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 the tax years 2022 and 2021, 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 respective effect of these transactions is reflected in Notes 18.2 and 21.

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 capital and reserves.

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.

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 significant source of operating costs 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 the 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 the Income Statement" is not significant given the low importance of these investments in the context of the Group's total assets and the capital and reserves.

The acquisition of shares in unlisted companies must be approved by the Board of Directors of the Parent Company.

On December 31, 2022 the maximum exposure to price risk on equity instruments amounted to 245 thousand euros (323 thousand euros as of December 31, 2021).

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 and commercial paper discounting).

(Expressed in thousands of euros)

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.

	Millions of euros	
	2022	**2021**
Gross financial debt	**107.5**	**111.3**
Bank borrowings (including finance leases)	**38.8**	**53.7**
Syndicated loan	19.5	24.4
Other financial institutions	19.3	29.3
Other financial liabilities	**68.7**	**57.6**
Alternative Fixed-Income Market (MARF)	26.0	27.5
European Investment Bank (EIB)	19.9	15.0
Instituto de Crédito Oficial (ICO)	16.0	6.5
Cofides	5.9	6.6
Other (excluding free financing)	0.9	2.0
Liquid assets	**(58.5)**	**(60.4)**
Cash and cash equivalents	(56.2)	(58.7)
Other cash equivalents	(2.3)	(1.7)
Net financial debt	**49.0**	**50.9**
Unused lines of credit and discounting bills	43.7	40.0
Undrawn portion of syndicated loan	5.0	5.0
Undrawn portion of EIB and ICO	-	25.5
Undrawn MARF Commercial Paper programs	24.0	22.5
Availabilities	**72.7**	**93.0**

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

In addition, at the end of 2022, the Group had authorized non-recourse factoring lines of 48,322 thousand euros via various financial institutions (35,587 thousand euros in 2021), as well as supplier payment management lines of 61,063 thousand euros (31,412 thousand euros in 2021).

(Expressed in thousands of euros)

In addition, the following table details the working capital presented in the Group's consolidated balance sheet as of December 31, 2022 and 2021:

		Millions of euros	
	Notes	**2022**	**2021**
Current asset		**210.7**	**183.6**
Current operating asset		**150.6**	**122.2**
Inventories	10	72.2	61.8
Trade and other receivables	11	78.4	60.4
Operating non-current asset		**60.1**	**61.4**
Short-term financial investments		3.3	2.0
Short-term accruals		0.6	0.7
Cash and cash equivalents	12	56.2	58.7
Current liabilities		**(182.0)**	**(150.3)**
Current operating liability		**(123.6)**	**(93.8)**
Trade and other payables		(123.6)	(93.8)
Non-current operating liability		**(58.4)**	**(56.56)**
Current creditors	18	(57.6)	(55.2)
Current provisions	17	(0.8)	(1.3)
Working capital		**28.7**	**33.3**

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 2023.

d) Debt and solvency risk

As of December 31, 2022, the Arteche Group recorded a consolidated net financial debt of 49.0 million euros, a 3.7% reduction when compared to the end of the previous year.

As a result, the financial solvency indicators at the end of 2022 reflect a debt equivalent to 1.63 times the EBITDA operating result for the last twelve months (compared to 1.95 times in 2021), thereby demonstrating the financial capacity of the business and the stability of Arteche's equity position.

The financing structure’s core focuses on non-current syndicated financing, working capital framework agreements, 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 the 2022, these commitments have been fulfilled. Management monitors changes in debt based on several indicators:

- Net Financial Debt / EBITDA
- Net Financial Debt / Capital and Reserves
- EBITDA / finance costs:

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 that undrawn credit lines and trade discount facilities amount to 25.2 million and 18.5 million euros, respectively (21 million and 19 million euros at the end of 2021, respectively).

5.2 Fair value estimation

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 Company 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.

6. GOODWILL ON CONSOLIDATION

Details and movements in the various items that make up this heading in the consolidated balance sheet In the tax years 2022 and 2021 are as follows:

	In thousands of euros								
	December 31, 2020	**Changes in the Scope (Note 2.4)**	**Depreciation**	**Exchange differences**	**December 31, 2021**	**Changes in the scope of consolidation and restatements (note 2.4)**	**Depreciation**	**Exchange differences**	**December 31, 2022**
Arteche North América, S.A. de C.V.	486	-	(98)	21	409	-	(112)	49	346
Arteche EDC Equipamientos e Sistemas, S.A.	179	-	(36)	1	144	-	(42)	21	123
Arteche DYH Electric Co., Ltd.	174	-	(36)	17	155	-	(40)	(2)	113
SAC Maker, S.A.U.	7383	-	(1,847)	-	5536	-	(1,846)	-	3690
Arteche Chile, S.p.A.	99	-	(18)	(12)	69	-	(18)	4	55
Smart Digital Optics Pty, Limited	2107	7376	(425)	18	9076	-	(998)	600	8678
Esitaş Elektrik Sanayi ve Ticaret Anonim Sirketi	-	12010	(401)	(3,040)	8569	3310	(956)	(2,336)	8587
PT Esitaş Pacific	-	335	(9)	13	339	121	(39)	(13)	408
	10428	**19721**	**(2,870)**	**(2,982)**	**24297**	**3431**	**(4,051)**	**(1,677)**	**22000**

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, with the exception of SAC Maker, S.A.U., which includes the substation and distribution automation 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, considering the time horizon that allows the business model to be normalized in each case, and are consistent with the Company's business plans. The main components are:

- Profit projections
- Investment and working capital projections

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.

(Expressed in thousands of euros)

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

	2022			
	Discount rate (*)	**Long-term growth rate**	**Representative value for recoverable value**	**Time horizon**
UGE SAC Maker (**)	11.0%	2%	Value in use	5 years
UGE Smart Digital Optics	12.0%	2.5%	Value in use	5 years
UGE Esitas Turkey	14.8%	2.0%	Value in use	5 years

(*) Cash flows and after-tax discount rate
(**) Discount rate of 10.2% and growth rate of 2% in 2021

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 following simulations, and no indications of goodwill impairment have been detected:

- Penalization of the discount rate by 100 basis points.
- Consideration of the flow in perpetuity 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 the Management on the key variables, the Group considers that there is sufficient play in the recoverability of such goodwill.

6.1 Description of the main movements

The 2022 and 2021 tax year movements included in "Changes in the scope of consolidation" correspond to the goodwill generated as a result of the transactions detailed in Note 2.4.

(Expressed in thousands of euros)

7. OTHER INTANGIBLE ASSETS

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

Tax year 2022	**Opening balance**	**Additions and allocations**	**Deactiv ation**	**Exchange differences**	**Hyper-inflation effect (Note 2.5)**	**Additions to the scope of consolidat ion (Note 2.4)**	**Opening Balance**
Cost							
Development	88592	5624	(2)	335	186	(862)	93873
Concessions	621	85	-	(92)	-	-	614
Licenses	1552	202	-	(120)	-	(181)	1453
Software	12227	959	(49)	88	67	(20)	13272
Other intangible assets	8646	34	-	(197)	-	1932	10415
	111638	6904	(51)	14	253	869	119627
Accumulated depreciation							
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	**24566**						**26752**

Tax year 2021	**Opening balance**	**Additions and allocations**	**Deactiv ation**	**Exchange differences**	**Hyper-inflation effect (Note 2.5)**	**Additions to the scope of consolidat ion (Note 2.4)**	**Opening Balance**
Cost							
Development	82711	5214	(4)	564	107	-	88592
Concessions	646	-	-	(25)	-	-	621
Licenses	1251	7	-	(132)	-	426	1552
Software	11395	786	-	11	35	-	12227
Other intangible assets	8002	-	-	(339)	-	983	8646
	104005	6007	(4)	79	142	1409	111638
Accumulated depreciation							
Development	(65,558)	(4,066)	-	(506)	(105)	-	(70,235)
Concessions	(305)	(122)	-	139	-	-	(288)
Licenses	(477)	(22)	-	126	-	(392)	(765)
Software	(10,103)	(311)	-	(33)	(33)	-	(10,480)
Other intangible assets	(4,557)	(312)	-	83	-	-	(4,786)
	(81,000)	(4,833)	-	(191)	(138)	(434)	(86,554)
Impairment	(518)	-	-	-	-	-	(518)
Net carrying amount	**22487**						**24,566**

7.1 Description of the main movements

Of the total amount of development expenses incurred In the tax year 2022, the Group capitalized an amount of 5,518 thousand euros (5,143 thousand euros in 2021), the rest was direct additions. That amount was materialized via 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 profit / loss.

As of December 31, 2022, an amount of 2,239 thousand euros (1,285 thousand euros in 2021) relates to development projects that had not been completed at year-end and, therefore, have not begun to be depreciated.

7.2 Intangible assets located abroad

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

	In thousands of euros		
	Cost	**Accumulated depreciation**	**Net carrying amount**
Tax year 2022			
Development	7328	(5,871)	1457
Concessions	614	(360)	254
Patents, licenses and trademarks	484	(393)	91
Software	2210	(1,875)	335
Other intangible assets	501	(45)	456
	11137	**(8,544)**	**2593**
Tax year 2021			
Development	6652	(4,979)	1673
Concessions	621	(288)	333
Patents, licenses and trademarks	401	(379)	22
Software	1862	(1,652)	210
Other intangible assets	668	(28)	640
	10204	**(7,326)**	**2878**

7.3 Fully-depreciated intangible assets

As of December 31, 2022 there are intangible assets, still in use, and fully depreciated with an accounting cost of 78,143 thousand euros (77,871 thousand euros as of December 31, 2021). 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.

8. PROPERTY, PLANTS AND EQUIPMENT

Details and movements in the various items that make up property, plants and equipment in the consolidated balance sheet for 2022 and 2021 are as follows:

	In thousands of euros							
	Opening balance	**Hyperinflation effect (Note 2.5)**	**Additions and allocations**	**Changes in the scope of consolidation (Note 2.4)**	**Deactivation**	**Transfers**	**Exchange differences**	**Opening Balance**
Tax year 2022								
Cost								
Land and buildings	14290	1158	125	(256)	-	180	(271)	15226
Technical facilities and other property, plants and equipment	87586	5220	3858	(2,027)	(13)	2701	(1,013)	96312
In-progress tangible assets and prepayments	3694	-	3118	(38)	-	(2,881)	200	4093
	105570	6378	7101	(2,321)	(13)	-	(1,084)	115631
Accumulated depreciation								
Structures	(6,418)	(302)	(478)	256	-	-	17	(6,925)
Technical facilities and other property, plants and equipment	(71,508)	(3,738)	(4,048)	1899	1	-	1230	(76,164)
	(77,926)	(4,040)	(4,526)	2155	1	-	1247	(83,089)
Net carrying amount	**27644**							**32542**

	In thousands of euros							
	Opening balance	Hyperinflation effect (Note 2.5)	Additions and allocations	Changes in the scope of consolidation	Deactivation	Transfers	Other transactions and translation differences	Opening Balance
Tax year 2021								
Cost								
Land and buildings	11224	664	1719	-	(7)	190	500	14290
Technical facilities and other property, plants and equipment	79418	2337	2651	2173	(644)	1518	133	87586
In-progress tangible assets and prepayments	3164	-	1777	-	-	(1,708)	462	3694
	93806	3001	6147	2173	(651)	-	1095	105570
Accumulated depreciation								
Structures	(5,474)	(181)	(397)	-	4	-	(370)	(6,418)
Technical facilities and other property, plants and equipment	(64,911)	(2,111)	(3,472)	(1,390)	584	-	(208)	(71,508)
	(70,385)	(2,292)	(3,869)	(1,390)	588	-	(578)	(77,926)
Net carrying amount	**23421**							**27644**

The land value amounts to 1,146 thousand euros as of December 31, 2022 (1,017 thousand euros as of December 31, 2021).

8.1 Description of the main movements

Additions In the tax years 2022 and 2021 were mainly a result of the acquisition of plant and machinery in connection with the replacement and improvement of production processes.

Of the total amount of personnel costs incurred In the tax year 2022, the Group has capitalized an amount of 424 thousand euros, recorded under the heading “Work performed by the entity and capitalized” in the consolidated income statement. This amount is materialized via technical installations and machinery that represent improvements via which benefits and positive outcomes are expected to be obtained in the future.

8.2 Fully depreciated assets

As of December 31, 2022 there are buildings with an original cost of €1,101 thousand (€1,100 thousand as of December 31, 2021) that are fully depreciated and still in use. The cost of other fully depreciated property, plants and equipment in use amounts to 52,486 thousand euros (48,351 thousand euros as of December 31, 2021).

8.3 Property, plants and equipment pledged to guarantees

As of December 31 in 2022 and 2021 there are no items of property, plants or equipment subject to guarantees.

8.4 Assets under finance leases

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

	In thousands of euros		
	Cost	**Accumulated depreciation**	**Net carrying amount**
Tax year 2022			
Plant and machinery	1466	(593)	873
Data-processing equipment	374	(235)	139
	1840	**(828)**	**1012**
Tax year 2021			
Plant and machinery	1249	(356)	893
Data-processing equipment	322	(178)	144
	1571	**(534)**	**1037**

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.

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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.

Lease contract expenses amounted to 5,212 thousand euros (3,992 thousand euros in 2021) (Note 20.5).

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

	In thousands of euros	
	2022	**2021**
Up to one year	3812	3743
Between one and five years	12718	12091
More than five years	15907	17631
	32437	**33465**

8.6 Property, plants and equipment located abroad

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

	In thousands of euros		
	Cost	**Accumulated depreciation**	**Net carrying amount**
Tax year 2022			
Land and buildings	14227	(6,053)	8174
Technical facilities and other property, plants and equipment	43376	(29,614)	13762
In-progress tangible assets and prepayments	2022	-	2022
	59625	**(35,667)**	**23958**
Tax year 2021			
Land and buildings	13037	(5,302)	7735
Technical facilities and other property, plants and equipment	35155	(24,781)	10374
In-progress tangible assets and prepayments	1861	-	1861
	50053	**(30,083)**	**19970**

8.7 Purchase commitments

As of December 31, 2022, the Group has commitments to invest in technical installations and other fixed assets amounting to 2,100 thousand euros (1,229 thousand euros as of December 31, 2021).

8.8 Insurance

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

9. FINANCIAL ASSETS

Financial assets as of December 31 are analyzed below:

	In thousands of euros					
	Equity Instruments		Credits, derivatives and others (Note 13)		Total	
	2022	2021	2022	2021	2022	2021
Non-current financial assets						
Financial assets at fair value with changes in net equity	245	323	-	-	245	323
Financial assets at depreciated cost (Note 13)	-	-	1384	1245	1384	1245
Derivatives (Note 18.2)	-	-	1347	15	1347	15
	245	323	2731	1260	2976	1583
Current financial assets						
Financial assets at depreciated cost (Note 13)	-	-	58862	41371	58862	41371
Derivatives (Note 18.2)	-	-	1074	268	1074	268
	-	-	59936	41639	59936	41639
	245	**323**	**62667**	**42899**	**62912**	**43222**

Financial assets at fair value with changes in net 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.

It also includes shareholdings in some group companies that were not included in the consolidated balance sheet due to their little importance (Note 3.3).

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

10. INVENTORIES

The composition of this consolidated balance sheet heading as of December 31, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	**2021**
Goods for resale	398	228
Raw and sundry materials	32937	25358
Work in progress	15975	18228
Finished products	21624	17040
By-products, residues and materials recovered	286	278
Prepayments to suppliers	960	654
	72180	**61786**

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

Movements in impairment adjustments are as follows:

	In thousands of euros	
	2022	**2021**
Opening balance	3483	2893
Measurement adjustments during the tax year	555	636
Reversal	(437)	(112)
Exchange differences	104	66
Closing balance	**3705**	**3483**

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.

As of December 31, 2022, there are firm commitments to acquire raw materials totaling 21,953 thousand euros (18,955 thousand euros at 2021 year-end). Firm commitments for sales of finished products and the firm order backlog as of December 31, 2022 amount to 167,424 thousand euros (115,783 thousand euros at year-end 2021).

11. FINANCIAL ASSETS AT DEPRECIATED COST

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

	In thousands of euros	
	2022	**2021**
Non-current financial assets		
Loans to third parties	270	320
Other financial assets	1114	925
	1384	**1245**
Current financial assets		
Trade and other receivables (except from public sector)	56631	39628
Loans to companies	116	49
Other financial assets	2115	1694
	58862	**41371**

Other short-term and long-term financial assets

As of December 31, 2022, there are long-term judicial deposits of 73 thousand euros (71 thousand euros in 2021) made by the subsidiary Arteche EDC Equipamientos e Sistemas, S.A. in relation to certain contingencies and lawsuits in progress (Note 17).

The amount recognized in this account 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 short-term assets as of December 31, 2022 and 2021 included under "Other short-term financial assets" relates to term deposits in euros amounting to 2,115 thousand euros (1,694 thousand euros as of December 31, 2021) regarding which a pledge has been made as a security for certain obligations assumed with the financial institutions with which the deposits are held. The average interest rate accrued In the tax year 2022 was 0% (0% in 2021).

Trade and other receivables

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

	In thousands of euros	
	2022	**2021**
Trade receivables for sales and service rendering	54586	38636
Sundry receivables	1903	938
Personnel	142	54
	56631	**39628**

In addition, the "Trade receivables for sales and service rendering" account is presented net of impairment adjustments. The movements in these adjustments In the tax years 2022 and 2021 are as follows:

	In thousands of euros	
	2022	**2021**
Opening balance	5007	7171
Provision / Reversal for impairment of trade receivables	1	445
Cleared items	(97)	(3,073)
Consolidations /Deconsolidations	-	525
Exchange differences	286	(61)
Closing balance	**5197**	**5007**

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 euros relating to the execution of a guarantee in 2022 (0 thousand euros in 2021).

The other accounts included in this heading are not impaired.

12. CASH AND CASH EQUIVALENTS

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

	In thousands of euros	
	2022	**2021**
Box	81	62
Demand current accounts	55967	58372
Bank deposits	165	275
	56213	**58709**

Current accounts accrue the market interest rate for this type of account. The balance denominated in foreign currencies amounts to 28,606 thousand euros (23,506 thousand euros as of December 31, 2021).

Bank deposits maintained In the tax years 2022 and 2021 essentially relate to interbank deposits with daily liquidity. The average accrued interest rate was 0%.

There are no restrictions on the availability of cash balances.

(Expressed in thousands of euros)

13. CAPITAL AND RESERVES

13.1 Issued capital

On May 20, 2021, the General Shareholders' Meeting of the Parent Company agreed to request the listing on the BME Growth segment of BME MTF Equity (multilateral trading facility) of all the shares constituting the Company's share capital (including the outstanding shares at that time, as well as all those shares issued until the date of the effective listing of the shares on the Market).

In order to facilitate the dissemination of the shares in the market, the aforementioned General Shareholders' Meeting agreed to modify the nominal value of the shares of the Parent Company, changing it from 10 euros to 0.10 euros without modifying the share capital amount, by renumbering the shares and consequently modifying Article 5 of the Corporate Bylaws.

On June 7, 2021, prior to the listing of BME MTF Equity on BME Growth, the Extraordinary General Shareholders' Meeting approved a Parent Company capital increase of a total of 29,999 thousand euros, corresponding to 761 thousand euros of share capital and 29,238 thousand euros of issue premium, via the issuing of 7,614,213 new Company shares at a nominal value of 0.10 euros each.

As a result of the transactions, 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 euros each at 31 December 2021. During the tax year 2022, there have been no changes in the capital stock.

As of December 31, 2022 and 2021, the shareholders which held over 5% of the capital stock were as follows:

	31/12/2022	31/12/2021
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.	5.63%	5.47%

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. There are no free transfer restrictions.

13.2 Issue premium

The issue 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 2022 and 2021, the breakdown of Reserves is as follows:

	In thousands of euros	
	2022	**2021**
Legal reserve	1142	990
Voluntary reserves	86573	89509
Total Parent Company reserves	**87715**	**90499**
Reserves in fully consolidated companies	(40,196)	(53,700)
Reserves in proportionally consolidated companies	(9,923)	(8,092)
Reserves in equity-accounted companies	(1,193)	(1,193)
Total reserves in consolidated companies	**(51,312)**	**(62,985)**
Total reserves	**36403**	**27514**

Legal reserve

The legal reserve has been appropriated in accordance with Article 274 of the revised Corporations Law,
which establishes that, in any event, an amount equal to 10% of the income for the tax year will be transferred to the legal reserve until it reaches at least 20% of capital stock. As of December 31, 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, 2022, the Parent Company presents fully depreciated development expenses in its assets. 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.

In the tax year 2021, the Parent Company recorded the incremental expenses under this heading incurred for the listing of all the shares representing the Company's capital stock in the BME Growth segment of BME MTF Equity for an amount of 2,577 thousand euros.

13.4 Dividends distributed

On July 6, 2022, the Parent Company distributed a final dividend with a charge to 2021 profit / loss amounting to 2,563 thousand euros, as approved by the General Shareholders' Meeting held on May 11, 2022.

13.5 Treasury stock and equity interests

On April 23, 2021, the Company acquired 1,346 treasury shares at 267.26 euros each, for a total payment of 360 thousand euros. Subsequently, there have been movements in the purchase and sale of treasury stock under the contract with the Liquidity Facility. The difference between the cost price and the selling price has been recorded under "Voluntary reserves".

The movement of treasury stock is as follows:

	In thousands of euros	
	2022	**2021**
As of January 1	**375**	**-**
Acquisition of treasury stock	372	375
Disposal of treasury stock	(244)	-
Capital reduction	-	-
As of December 31	**503**	**375**

14. PROFIT / LOSS FOR the tax year

The distribution of the net profit / loss for 2022 that the Board of Directors of the Parent Company will propose for approval by the shareholders at the Annual General Meeting is as follows:

	In thousands of euros	
	2022	**2021**
Distribution basis		
Balance in the Income Statements	4443	5378
	4443	**5378**
Distribution		
To voluntary reserves	2137	2663
To legal reserve	-	152
Final dividend	2306	2563
	4443	**5378**

Under certain loan agreements signed by the Group (Note 18.1) there is a limitation on the distribution of dividends to shareholders, at 25%, 30% or 50% of consolidated net income, 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 2022 and 2021 "Exchange differences of consolidated companies" account relate mainly to the translation of amounts at year-end.

15.2 Hedging transactions

The breakdown and movements in hedging transactions are as follows:

	In thousands of euros		
	Opening balance	Variation In value	Opening Balance
Tax year 2022			
Cash flow hedges	(115)	2265	2150
Tax effect	4	(598)	(594)
	(111)	**1667**	**1556**
Tax year 2021			
Cash flow hedges	602	(717)	(115)
Tax effect	(165)	169	4
	437	**(548)**	**(111)**

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

16. EXTERNAL PARTNERS

Movements under this heading during 2022 and 2021 are as follows:

	In thousands of euros	
	2022	2021
January 1	5712	5056
Profit / loss for the tax year	646	174
Exchange differences	(202)	492
Hedging transactions	(7)	(5)
Others	29	(5)
December 31	**6178**	**5712**

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

	In thousands of euros						
	Issued capital	**Negative profits from prior tax years**	**Profit from the tax year**	**Hedging transactions**	**Other items**	**Ex -change differences**	**Total**
Tax year 2022							
Arteche DYH Electric Co., Ltd.	4754	(673)	637	7	(18)	1207	5914
Arteche Inael, S.L.	786	(67)	-	-	-	-	719
Arteche Inael Industrial Eléctrica, Ltda.	-	(537)	(2)	-	-	84	(455)
	5540	**(1,277)**	**635**	**7**	**(18)**	**1291**	**6178**
Tax year 2021							
Arteche DYH Electric Co., Ltd.	4754	(834)	161	14	(31)	1365	5429
Arteche Inael, S.L.	786	(67)	-	-	-	-	719
Arteche Inael Industrial Eléctrica, Ltda.	-	(535)	(2)	-	-	101	(436)
	5540	**(1,436)**	**159**	**14**	**(31)**	**1466**	**5712**

17. PROVISIONS AND CONTINGENCIES

Details of non-current and current provisions as of December 31, 2022 and 2021 are as follows:

	In thousands of euros		
	Non-current	**Current**	**Total**
Tax year 2022			
Social security obligations	1308	141	1452
Provision for contingencies and other risks	816	735	1548
	2124	**876**	**3000**
Tax year 2021			
Social security obligations	1004	225	1229
Provision for contingencies and other risks	934	1144	2078
	1938	**1369**	**3307**

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

	In thousands of euros					
	Opening balance	**Allocations**	**Applications and payments**	**Transfers**	**Exchange differences**	**Closing balance**
Tax year 2022						
Social security obligations (Note 4.21)	1004	186	-	118	-	1308
Provision for contingencies and other risks	934	-	(96)	-	(22)	816
	1938	**186**	**(96)**	**121**	**(22)**	**2124**
Tax year 2021						
Social security obligations (Note 4.21)	1000	4	-	-	-	1004
Provision for contingencies and other risks	1966	278	(1,201)	-	(109)	934
	2966	**282**	**(1,201)**	**-**	**(109)**	**1938**

The provision for contingencies and other risks refers firstly to the provision for labor contingencies in the Brazilian subsidiary Arteche EDC Equipamientos e Sistemas, S.A. amounting to 73 thousand euros (71 thousand euros as of December 31, 2021).

Secondly, provisions are included to cover other risks in the subsidiary AIT, S.A. in relation to the UTE Electroingeniería ICSSA-AIT and in Elmya Arteche Limited, amounting to Euros 250 thousand (Euros 279 thousand at 31 December 2021) and Euros 17 thousand, respectively (Euros 17 thousand at 31 December 2021). The applications in 2021 were due to payments made to cover the equity position of Elmya Arteche Limited and to exchange rate differences.

As of year-end In the tax years 2022 and 2021, 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.

18. FINANCIAL LIABILITIES

Details of non-current and current financial liabilities as of December 31, 2022 and 2021 are as follows:

	In thousands of euros					
	Bank borrowings		Derivatives and Others		Total	
	2022	2021	2022	2021	2022	2021
Non-current financial liabilities						
Financial liabilities at depreciated cost	26197	38029	36132	32516	62329	70545
Hedging derivatives	-	-	-	1046	-	1046
	26197	38029	36132	33562	62329	71591
Current financial liabilities						
Financial liabilities at depreciated cost	12642	15755	153892	121167	166534	136922
Hedging derivatives	-	-	1138	1377	1138	1377
	12642	15755	155030	122544	167672	138299
	38839	**53784**	**191162**	**156106**	**230001**	**209890**

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

	In thousands of euros					
	Bank borrowings		Derivatives and Others		Total	
	2022	2021	2022	2021	2022	2021
Non-current financial liabilities						
Non-current creditors	26138	37544	-	-	26138	37544
Derivatives	-	-	-	1046	-	1046
Creditors for finance lease	59	485	-	-	59	485
Other liabilities	-	-	36132	32516	36132	32516
	26197	38029	36132	33562	62329	71591
Current financial liabilities						
Liabilities and other negotiable securities	-	-	26000	27500	26000	27500
Current creditors	12531	15241	17750	10588	30281	25829
Derivatives	-	-	1138	1377	1138	1377
Creditors for finance lease	111	514	-	-	111	514
Trade accounts payable and other payables (except for Public Administrations)	-	-	110142	83079	110142	83079
	12642	15755	155030	122544	167672	138299
	38839	**53784**	**191162**	**156106**	**230001**	**209890**

(Expressed in thousands of euros)

18.1 Bank borrowings

Details as of December 31, 2022 and 2021 are as follows:

	Millions of euros	
	2022	**2021**
Syndicated loan	19.5	24.4
Other bank loans	16.4	19.8
Lines of credit	2.4	8.6
Other (including financial leasing)	0.5	1
	38.8	**53.8**

The total amount of bank borrowings denominated in foreign currency is 2,387 thousand euros (8,612 thousand euros as of Friday, December 31, 2021), 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 novated in December 2017 and in January 2021. The amount drawn down on the syndicated loan is 19,503 thousand euros (19,107 thousand euros at depreciated cost) as of December 31, 2022 (24,378 thousand euros in 2021), of which 4,876 thousand euros matures in the short term (4,876 thousand in 2021).

Likewise, in January 2021, a new Working Capital Framework Agreement was signed for consecutive three-year periods, replacing the previous one. Both transactions provide the Group financial stability to meet its contractual obligations.

The group companies Electrotécnica Arteche Hermanos, S.L., Electrotécnica Arteche Smart Grid, S.L., Inversiones Zabalondo, S.L., Smart Digital Optics Pty Ltd., Esitaş Elektrik Sanayi ve Ticaret A.Ş, Arteche North America, S.A., AIT, S.A., Arteche ACP, S.A. de Capital Variable, Arteche EDC Equipamentos e Sistemas, S.A. and Arteche USA Inc. are guarantors of this transaction.

The applicable interest rate is Euribor plus a margin that is determined based on compliance with certain ratios. The Company contracted a Cap at a 0% strike level to hedge the variations of the Euribor on half of the nominal amount pending depreciation (Note 18.2). Taking into account this contracted hedge, the average interest rate during the tax year was approximately 2.25% (approximately 2.25% in 2021). Finance costs accrued in the tax year amounted to 802 thousand euros (827 thousand euros in the tax year 2021).

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 financial statements. Non-compliance with the ratios is cause for the early termination of the agreement. The Parent Company's Directors believe that these ratios were met In the tax year 2022.

The remaining bank loans have a final maturity between 2025 and 2026 and an average interest rate of 3.1%.

Factored balances without recourse as of December 31, 2022 amount to 27,922 thousand (December 31, 2021: 28,767 thousand).

Details by due date of the items recognized under Non-current bank borrowings at the end of 2022 are as follows:

	2024	2025	2026	2027 and afterwards	Total
Bank borrowings	11495	8535	6167	-	26197
	11495	**8535**	**6167**	**-**	**26197**

18.2 Derivative financial instruments and other

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

	In thousands of euros	
	2022	**2021**
Non-current		
Derivatives and hedging instruments	-	1046
Other financial liabilities		
Repayable advances	1598	1834
Loans	34525	26075
Other payables	9	4607
	36132	**33562**
Current		
Liabilities and other negotiable securities	26000	27500
Derivatives and hedging instruments	1138	1377
Other financial liabilities		
Repayable advances	531	546
Loans	7250	3021
Asset suppliers	3127	2638
Other payables	6842	4227
Trade and other payables (except Public Administrations)	110142	83079
	155030	**122544**

Derivatives

The breakdown of derivatives as of December 31 is as follows:

	In thousands of euros			
	Notional		Fair value	
	2022	2021	2022	2021
Interest rate swaps and options on variable rate loans	43105	4706	1774	-
Exchange hedges for US dollar denominated receivables	16166	6785	410	94
Exchange hedges for euro denominated receivables	3511	770	71	62
Exchange hedges for Turkish lira denominated receivables	4072	6342	(997)	(2,310)
Exchange hedges for Indonesian rupiahs denominated receivables	234	688	25	14
	67088	**19291**	**1283**	**(2,140)**

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.

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:

	In thousands of euros	
	2022	2021
Non-current borrowings - Derivatives	1347	15
Current borrowings - Derivatives	1074	268
Non-current creditors - Derivatives	-	(1,046)
Current creditors - Derivatives	(1,138)	(1,377)
	1283	**(2,140)**

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 as of 31 December 2022 and 2021 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 of the Parent Company's loan with the EIB for a total nominal amount of 15,000 thousand euros; (ii) 50% of the nominal amount pending repayment of the syndicated loan at the date the derivative was contracted, i.e. 12,189 thousand euros, and (iii) the 16,000 thousand euros (pending repayment as of 2023) of the loan the Company has with the ICO.

The structure contracted was an IRS for the first two EIB drawings and for the ICO loan, while the option selected for the syndicated loan was a CAP with a 0% strike level. 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 tax years in which cash flows are expected to occur and affect the income statement are as follows:

	In thousands of euros	
	2022	**2021**
2022	-	(1,109)
2023	(64)	(1,031)
2024	1347	-
	1283	**(2,140)**

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 2022. The range of interest rates at which the Company issued promissory notes during 2022 ranged from 0.4% to 3.35% (between 0.6% and 0.95% in 2021), at terms between 1 and 9 months (between 3 and 6 months in 2021). The total amount of promissory notes issued during the tax year 2022 amounted to 83.3 million euros (82.9 million euros in the tax year 2021), of which, as of December 31, 2022, promissory notes amounting to 26 million euros (27.5 million euros in the tax year 2021) were outstanding, reflected under "Bonds and other marketable securities".

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, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	**2021**
European Investment Bank (EIB)	19900	15000
Cofides (granted to Arteche Lantegi Elkartea, S.A.)	4000	4000
Cofides (granted to Arteche North America, S.A. de CV)	1875	2625
Instituto de Crédito Oficial (ICO)	16000	6500
Others	-	971
	41775	**29096**

On December 19, 2019 a credit line was contracted with the European Bank of Investments (EBI) for an amount of 27,000 thousand euros with a view to providing the Group with greater financial stability.

As of December 31, 2022, the amount drawn down on this loan was 19.9 million euros, of which 15 million euros will be repaid between 2023 and 2028 and 4.9 million euros between 2025 and 2030. As of December 31, 2021, the amount drawn down amounted to 15 million euros. This loan is subject to compliance with certain financial ratios. The Parent Company's Directors believe that they will be complied with as of December 31, 2022.

Likewise, in 2020, the ICO (Instituto de Crédito Oficial, Official Credit Institute) endorsed our R+D+i plan and its compatibility 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 euros that will allow the Arteche Group to tackle the plans for the coming years.

The amount drawn down in this connection amounted to 16 million euros, of which 4 million euros matured in the short term (the amount drawn down as of December 31, 2021 was 6.5 million euros, of which 1.3 million euros matured in the short term).

Likewise, in 2020 a loan was signed with Cofides for an amount of 3 million euros, with a grace period of one year and four years of depreciation for the expansion of the Medium Voltage plant in Tepeji del Rio in Mexico. The amount drawn down as of December 31, 2022 amounts to 1.9 million euros (2.6 million euros in the tax year 2021).

Finally, in July 2021 Arteche Lantegi Elkartea, S.A. signed a new contract with Cofides for 4 million euros , 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 as of December 31, 2022 and 2021 amounted to 4 million euros.

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

	In thousands of euros	
	2022	**2021**
2023	-	4550
2024	8050	5350
2025	8492	4975
2026	8117	11200
2027 and afterwards	9866	-
	34525	**26075**

Other current and non-current debts

The amounts recorded under these headings refer mainly to the amount payable to the former owners of the companies Esitaş Elektrik Sanayi ve Ticaret and PT Esitaş Pacific as a result of their purchase (Note 2.4).

Information regarding the average payment period for suppliers. 3rd Additional Provision. "Disclosures" established by Law 15/2010, dated July 5

In compliance with current legislation, the annual financial statements as of 31 December 2021 include information regarding payments to domestic suppliers, based on Law 31/2014 (3 December), which amended Law 15/2010 which, in turn, amended Law 3/2004, which establishes measures against late payment of trade payables.

The required information with respect to this item in accordance with the ICAC Resolution dated 29 January 2017 is as follows:

	Days	
	2022	**2021**
Average payment period for suppliers	81	119
Ratio of transactions paid	86	115
Ratio of transactions pending payment	69	92

	In thousands of euros	
	2022	**2021**
Total payments made	120526	106353
Total pending payments	43783	34242

Total amount of invoices paid	120526
Amount of invoices paid within the legal deadline	40618
%	34%
Total number of invoices paid	28351
Total number of invoices paid within the legal deadline	9882
%	35%

19. FISCAL SITUATION

19.1 Public Administration balances

The detail of the balances relating to tax assets and liabilities as of December 31, 2022 and December 31, 2021 is as follows:

	In thousands of euros	
	31/12/2022	**31/12/2021**
Receivables balance		
Non-current receivables from public administrations	1218	1073
Deferred tax assets	22806	22072
Other receivables from public administrations	21749	20771
Withholdings and interim payments	3442	3031
Value-Added Tax and others:	17927	17203
Social Security	380	537
	45773	**43916**
Credit balances		
Deferred tax liabilities	(3,936)	(2,921)
Current tax liabilities	(2,267)	(788)
Other payables to Public Administrations	(11,197)	(9,903)
Personal income tax withholdings	(1,683)	(2,386)
Social Security	(1,639)	(1,504)
VAT	(7,875)	(6,013)
	(17,400)	**(13,612)**

19.2 Corporate tax calculation

The Parent Company files consolidated corporate income tax returns, along with some domestic investee companies included in the scope of consolidation as indicated in Note 4.18. 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 profit / loss differ from taxable income.

For 2022 and 2021, corporate income tax expense/(income) from continuing operations breaks down as follows:

	In thousands of euros			
	Consolidated Income statement		Directly recognized in consolidated net equity	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Current year tax	3213	2873	-	-
Change in deferred taxes	(1,530)	1868	(812)	65
Regularization of current income tax for the previous year, withholdings and others	646	387	-	-
Hyperinflation effect	124	-	-	-
Tax expense from continuing operations	**2453**	**5128**	**(812)**	**65**
Total tax expenses	**2453**	**5128**	**(812)**	**65**

19.3 Reconciliation of accounting profit / loss with 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 tax year is different from the accounting profit / loss. The reconciliation between the accounting profit / loss and the taxable income for income tax purposes is as follows:

	In thousands of euros	
	31/12/2022	31/12/2021
Consolidated profit / loss before taxes		
Consolidated profit / loss before taxes from continuing operations	10785	13845
Permanent differences	(12,327)	(13,370)
Temporary differences		
Originating in the tax year	3166	(5,643)
Arising from prior years	(907)	(710)
Offsetting of capitalized tax loss carryforwards from previous tax years	-	(1,320)
Offsetting of unused tax loss carryforwards from previous tax years	(3,062)	(1,301)
Consolidation adjustments	(140)	225
Taxable income	**(2,486)**	**(8,274)**
Elimination of tax consolidation dividends	11287	12887
Tax consolidation eliminations portfolio impairment	-	1033
Other tax consolidation adjustments	(5,431)	(2,558)
Adjusted taxable income	**3370**	**(3,088)**

The permanent differences In the tax years 2022 and 2021 correspond mainly to dividends distributed by the Group's subsidiaries and income from industrial property. Temporary differences In the tax years 2022 and 2021 correspond mainly to non-deductible provisions.

19.4 Reconciliation of accounting profit / loss with 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 2022 and 2021 is presented below:

	In thousands of euros	
	31/12/2022	31/12/2021
Consolidated profit / loss before taxes	**10785**	**13854**
Tax expense at the Parent Company's tax rate	2588	3323
Permanent net differences	(2,959)	(3,209)
Effect of consolidation differences	1404	54
Effect of the application of different tax rates	(205)	2842
Adjustments to prior years' taxes	(54)	20
Tax paid abroad	524	392
Impairment due to the Technical Review Panel (TRP) process	(200)	1300
Deductions and tax loss carryforwards	1040	848
Other adjustments	314	(442)
Income tax expense / (income)	**2453**	**5128**

19.5 Deferred tax assets and liabilities

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

	In thousands of euros							
	Variations reflected in							
	Opening balance	Hyperinflation effect (Note 2.5)	Consolidated income statement	Net equity equity	Other movements	Perimeter credits and debits (Note 2.4)	Exchange differences	Opening Balance
Tax year 2022								
Deferred tax assets								
Tax deductions	14896	-	(11)	-	-	(203)	-	14682
Tax losses carried forward	1497	-	862	-	-	(219)	(45)	2095
Cash flow hedges	1	-	-	6	-	-	-	7
Other - temporary differences	5678	(269)	439	-	-	(40)	214	6022
	22072	(269)	1290	6	-	(462)	169	22806
Deferred tax liabilities								
On business combinations	(913)	-	93	-	-	(374)	32	(1,162)
Grants	(582)	-	-	(33)	-	6	-	(609)
Cash flow hedges	(191)	-	-	(305)	-	-	(25)	(521)
Others	(1,235)	(592)	147	-	-	-	36	(1,644)
	(2,921)	(592)	240	(338)	-	(368)	43	(3,936)
	19151	**(861)**	**1530**	**(332)**	**-**	**(830)**	**212**	**18870**

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Notes to the consolidated annual financial statements for the tax year ended December 31, 2022

	In thousands of euros							
		Variations reflected in						
	Opening balance	Hyperinflation effect (Note 2.5)	Consolidated income statement	Net equity equity	Other movements	Perimeter credits (Note 2.4)	Exchange differences	Opening Balance
Tax year 2021								
Deferred tax assets								
Tax deductions	15494	-	(329)	-	(269)	-	-	14896
Tax losses carried forward	1475	-	(247)	-	269	-	-	1497
Cash flow hedges	4	-	-	(3)	-	-	-	1
Other - temporary differences	7309	(59)	(1,598)	34	(98)	-	90	5678
	24282	(59)	(2,174)	31	(98)	-	90	22072
Deferred tax liabilities								
On business combinations	(828)	-	64	-	-	(223)	74	(913)
Grants	(489)	-	-	(93)	-	-	-	(582)
Cash flow hedges	(188)	-	13	(7)	-	-	(9)	(191)
Others	(1,394)	(173)	229	-	98	-	5	(1,235)
	(2,899)	(173)	306	(100)	98	(223)	70	(2,921)
	21383	**(232)**	**(1,868)**	**(69)**	**-**	**(223)**	**160**	**19151**

The Group has deductions pending application as of December 31, 2022 amounting to 30,181 thousand euros (28,997 thousand euros as of December 31, 2021), of which it has recorded the corresponding deferred tax asset amounting to 14,682 thousand euros (14,896 thousand euros as of December 31, 2021). The total of the deductions breaks down as follows:

(In thousands of euros)		**Total deductions**	
Generation tax year	**Offsetting limit tax year**	**2022**	**2021**
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 *	1070	1070
2005	30 years *	1236	1236
2006	30 years *	860	860
2006	18 years	132	132
2007	30 years *	526	526
2007	18 years	118	118
2008	30 years *	1610	1610
2008	18 years	143	143
2009	30 years *	1929	1929
2009	18 years	71	71
2010	30 years *	1761	1748
2010	18 years	97	97
2011	30 years *	2489	2439
2011	18 years	176	176
2012	30 years *	2300	2319
2012	18 years	731	731
2013	30 years *	2175	2182
2013	18 years	104	104
2014	30 years *	2042	2042
2014	18 years	235	235
2015	30 years *	739	739
2015	18 years	32	32
2016	30 years *	1106	1106
2016	18 years	4	4
2017	30 years *	1328	1328
2017	18 years	4	4
2018	30 years *	705	705
2018	18 years	69	69
2019	30 years *	581	588
2019	18 years	78	78
2020	30 years *	750	768
2020	18 years	46	46
2021	30 years *	1146	-
2021	18 years	26	-
(**)		**30181**	**28997**

(*) Compensation period for taxable income and rebates as of 31/12/2013: 30 years from 01.01.2014. 5th and 22nd Transitional Provision of the local regulations on Corporate Income Tax Law.
(**) Deductions for the tax year 2022 are not included.

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

As of December 31, 2022, the Group has unused tax losses which, taking future forecasts into account, have an active tax credit amounting to 2,159 thousand euros (1,497 thousand euros in 2021) The breakdown of total tax credits is as follows:

		In thousands of euros	
		Tax credit	
Generation tax year	**Offsetting limit tax year**	**31/12/2022**	**31/12/2021**
2010	30 years *	324	376
2011	30 years *	157	307
2011	Unlimited	98	206
2012	30 years *	456	649
2012	Unlimited	657	578
2013	30 years *	2727	2904
2013	Unlimited	1731	1523
2014	30 years *	1856	1973
2014	Unlimited	3108	2934
2015	30 years *	102	107
2015	Unlimited	2242	2008
2016	30 years *	2105	2281
2016	Unlimited	1986	1861
2017	30 years *	874	890
2017	Unlimited	450	489
2018	30 years *	6063	6091
2018	Unlimited	482	480
2018	10 years	-	6
2019	30 years *	535	588
2019	Unlimited	295	274
2019	10 years	-	222
2020	30 years *	12	13
2020	Unlimited	756	730
2021	5 years	61	30
2021	10 years	984	953
2021	12 years	28	38
2021	Unlimited	183	137
2022	30 years	751	-
2022	Unlimited	311	-
2022	5 years	840	-
2022	12 years	11	-
		30185	**28648**

(*) Compensation period for taxable income and rebates as of 31/12/2013: 30 years from 01.01.2014. Transitional Provision 5 and 22. Corporate Income Tax Standards.

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 tax 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. In the opinion of the Parent Company's Directors and its tax advisors, there are no significant tax contingencies that could arise from possible different interpretations of the tax regulations applicable to the transactions carried out by the Group companies.

20. INCOME AND EXPENSES

20.1 Operating profit / loss by business segment

Details of the consolidated profit / loss for 2022 and 2021 for each of the business units where the Group operates are as follows:

	In thousands of euros			
	Measuring & Monitoring Systems	Reliability of network	Automation of transmission and distribution networks	Total
Tax year 2022				
Revenues	251632	29178	65093	345903
Changes in inventories	4894	(2,449)	(1,251)	1194
Work performed by the entity and capitalized	3184	170	2588	5942
Procurements	(151,932)	(17,875)	(27,769)	(197,576)
Other operating income	2384	69	448	2901
Personnel costs	(59,964)	(4,742)	(18,805)	(83,511)
Other operating expenses	(37,969)	(3,137)	(8,360)	(49,466)
Depreciation of fixed assets	(8,794)	(652)	(5,221)	(14,667)
Grant allocations	333	-	301	634
Impairment and profit / loss on disposals of assets	(25)	-	-	(25)
Profit / loss due to loss of control	3055	-	-	3055
Other gains or losses	(3)	(49)	(10)	(62)
Operating profit / loss	**6795**	**513**	**7014**	**14322**

Tax year 2021

	In thousands of euros			
	Measuring & Monitoring Systems	**Reliability of network**	**Automation of transmission and distribution networks**	**Total**
Revenues	203998	21130	56905	282033
Changes in inventories	2760	1878	1908	6546
Work performed by the entity and capitalized	2223	31	2889	5143
Procurements	(119,750)	(16,175)	(25,930)	(161,855)
Other operating income	1250	89	203	1542
Personnel costs	(48,439)	(4,342)	(16,216)	(68,997)
Other operating expenses	(30,933)	(2,868)	(6,931)	(40,732)
Depreciation of fixed assets	(6,773)	(562)	(4,280)	(11,615)
Grant allocations	276	-	38	314
Impairment and profit / loss on disposals of assets	165	-	-	165
Other gains or losses	5	(32)	(1)	(28)
Operating profit / loss	**4782**	**(851)**	**8.585**	**12516**

20.2 Revenues

The distribution of the Group's revenues relating to continuing operations by geographic market as of December 31, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	**2021**
Segmentation by geographical market		
Spain	61320	49831
Europe, Africa and Middle East	75584	58801
North America	115353	90960
Mercosur	46481	43365
Asia	47165	39076
	345903	**282033**

20.3Procurements

Details under this heading as of December 31, 2022 and 2021 are as follows:

	In thousands of euros	
	2022	**2021**
Purchases	166718	150698
Subcontracted work	19075	15874
Impairment of goods purchased for resale, raw materials and others	306	162
Changes in inventories	11477	(4,879)
	197576	**161855**

20.4 Personnel costs

Details under the "personnel costs" heading as of December 31, 2022 and 2021 are as follows:

	In thousands of euros	
	2022	2021
Wages, salaries and similar remuneration		
Wages and salaries	65365	53484
Social security		
Social Security	14408	12828
Other social expenditure	3738	2685
	18146	15513
	83511	**68997**

Arteche Group's employees (for both continuing and discontinued operations) distributed by professional category and gender, are as follows:

	Number of employees at the end of the tax year			Average number of employees during the tax year
	Men	Women	Total	
Tax year 2022				
Direct	1321	377	1697	1599
Indirect	673	312	985	977
	1994	**689**	**2683**	**2576**
Tax year 2021				
Direct	1149	315	1464	1407
Indirect	745	309	1054	1041
	1894	**624**	**2518**	**2448**

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

	2022	2021
Direct	15	7
Indirect	9	2
	24	**9**

As of December 31, 2022 and 2021, the Board of Directors consisted of 6 legal entities (whose representatives are male individuals) and 2 male individuals.

20.5 External services

The breakdown of external services as of December 31, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	**2021**
Development costs	2852	2930
Leases (Note 8.5)	5212	3992
Repairs and maintenance costs	3586	3132
Independent professionals' services	9163	7325
Transport	11686	10916
Insurance premiums	968	757
Bank services	1239	1175
Advertising, publicity and public relations	1472	1254
Utilities	4457	1921
Other services	7751	5816
	48386	**39218**

21. FOREIGN CURRENCY TRANSACTIONS

The amounts of foreign currency transactions during the tax years 2022 and 2021 are as follows:

	In thousands of euros	
	2022	**2021**
Sales	177248	151359
Rendering of services	7703	1984
Purchases	(96,019)	(87,063)
Services received	(20,698)	(19,979)
	68234	**46301**

In addition to investments at fair value through profit and loss, treasury (Note 14) and debts with credit institutions in foreign currency (Note 21.1), as of December 31, 2022 the Group presents debit and credit balances in currencies other than the euro amounting to 58,938 and 59,464 thousand euros, respectively (40,945 and 54,367 thousand euros, respectively, as of December 31, 2021).

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 financial statements.

Directors and the Senior Management are also considered to be related parties.

The related parties that have carried out transactions with the Group In the tax years 2022 and 2021, 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, registered for tax purposes 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:

	In thousands of euros	
	2022	2021
Associated companies		
Trade receivables for sales and service rendering – Current	4929	3982
Sundry payables - short-term	(1,696)	(1,290)
Loans to third parties - long-term	123	123

During the 2022 tax year, the Arteche Group provided automation, control and protection services in the normal course of business to subsidiaries of Lur Zabalondo, S.L. amounting to 122 thousand euros (1,863 thousand euros in 2021).

As of December 31, 2022, the Arteche Group provides guarantees to third parties in relation to the activity carried out by subsidiaries of Lur Zabalondo, S.L. amounting to 6,929 thousand euros (7,529 thousand euros in the tax year 2021). Nonetheless, at the time of drafting these consolidated annual 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.

22.2 Directors and the Senior Management

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

	In thousands of euros	
	2022	**2021**
Directors		
Salaries	477	426
Per diems	672	649
Senior Management		
Salaries	2004	2444
	3153	**3519**

As of 31 December 2022 and 2021, 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 addition to the matters indicated in Note 22.1, as of 31 December 2022 and 2021 there are no prepayments or loans granted to the members of the Parent Company's Board of Directors.

a) Conflict-of-interest situations involving Directors

In order to avoid conflicts of interest with the Parent Company, Directors that held positions on the Board of Directors complied with the obligations established in Article 228 of the Spanish Companies Act throughout the tax year. 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

Fees accrued during the tax year for auditing services amounted to 325 thousand euros (335 thousand euros as of December 31, 2021).

In addition, fees accrued in the tax year 2022 for other services amounted to 88 thousand euros (90 thousand euros in 2021).

The audit fees accrued during the tax year by other auditors of subsidiaries for audit and other verification services totaled 16 thousand euros (21 thousand euros as of December 31, 2021).

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, during the 2022 tax year, expenses derived from environmental actions were incurred amounting to 241 thousand euros (186 thousand euros in the 2021 tax year). In turn, an income of 174 thousand euros was recorded in the current year from the sale of materials (189 thousand euros as of December 31, 2021).

At the end of 2022 and 2021, there were no significant devices or facilities recognized under Property, Plants and Equipment with a purpose of protecting or improving 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 as of December 31, 2022 for commercial transactions amounting to 6,987 thousand euros (6,844 thousand euros as of December 31, 2021); for financing transactions amounting to 8,759 (9.576 thousand as of December 31, 2021); for letters of financial support to the Group amounting to 27,619 thousand euros (32,812 thousand euros as of December 31, 2021) and others amounting to 12,169 thousand euros (9,905 thousand euros as of December 31, 2021).

24. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end, and up to the date of preparation of these annual financial statements, no significant events have occurred that could have a material effect on the annual financial statements for the tax year 2022.

APPENDIX

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

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Electrotécnica Arteche Hermanos, S.L.	-	0.01%	99.99%	2006	47047	630	-	49683	564	50247	Derio Bidea 28 Mungia (Bizkaia, Spain)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Arteche Smart Grid, S.L.U.	-	-	100.00%	588	15620	4867	6000	27075	1141	28216	Derio Bidea 28 Mungia (Bizkaia, Spain)	Purchase, sale and manufacture of all kinds of electrical appliances.
Inversiones Zabalondo, S.L.	11469	99.98%	0.02%	777	11948	425	-	13150	-	13150	Derio Bidea 28 Mungia (Bizkaia, Spain)	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.	38069	99.98%	0.02%	7271	35525	(4,572)	436	38660	-	38660	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, underwrite, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.
Arteche Smart Grid, S.L.U.	47984	100%	-	1317	20921	882	42884	66004	-	66004	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, underwrite, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,221)	(80)	22961	920	-	920	Derio Bidea 28 Mungia (Bizkaia, Spain)	Promotion and development of 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, Spain)	R&D projects related to technologies of interest to the energy generation, transmission and distribution sector and the incorporation of new technologies in products and their involved manufacturing processes.
Arteche North America, S.A. de C.V.	-	-	100%	22834	12307	3110	-	38251	(4,663)	33588	Km. 73,540. Ant. Carretera México-Querétaro Tepejí del Río de Ocampo State of Hidalgo (Mexico)	Manufacture and commercialization of instrument transformers, relays and automatic protection features for High, Medium and Low Voltage electrical installations.
AIT, S.A.	-	-	100%	14062	(7,282)	(3,648)	8282	11414	(10,224)	1190	Ruta 9, Km 689 Ferreyra Córdoba (Argentina)	Manufacture and commercialization of current transformers for high voltage electrical facilities.
Arteche EDC Equipamientos e Sistemas, S.A.	-	-	100%	49881	(44,428)	905	-	6358	(2,961)	3397	Rua Juscelino K. de Oliveira Curitiba State of Paraná (Brazil)	Manufacture and commercialization of electrical equipment and automatic protection features for power plants.
Arteche USA, Inc.	-	-	100%	1541	706	1548	-	3795	10	3805	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Electronic and electrical equipment trading company.
Arteche ACP do Brasil Ltda	-	0.02%	99.98%	20144	(10,867)	(310)	-	8967	(9,114)	(147)	Rua Rodolpho Hatschbach, No. 725, 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%	11886	(1,682)	1564	-	11768	3037	14805	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and commercialization of current transformers for high voltage electrical facilities.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Hitachi Energy Instrument Transformers, S.L.U.	-	51%	-	1540	-	(158)	4553	5935	27	5962	Gerezpea, 15 Polígono Industrial de Jundiz Vitoria (Álava, Spain)	Manufacture and marketing of products related to the electricity and energy sector.
Arteche- Inael, S.L.	-	-	56%	1786	(151)	-	-	1635	-	1635	Derio Bidea 28 Mungia (Bizkaia, Spain)	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%-	5035	(5,902)	1417	-	550	(643)	(93)	National Innovation Center,145 Australian Technology Park, 4 Cornwallis Street, Eveleigh New South Wales (Australia)	Design and research in the field of optical transformer.
Zizkua Inversiones, S.L.	317	15%	-	2110	(62)	-	-	2048	-	2048	Derio Bidea 28 Mungia (Bizkaia, Spain)	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	2200	(1,480)	243	(1,237)	Las Rozas (Madrid, Spain)	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.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(240)	-	75	(160)	-	(160)	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, subscribe, exchange and sell all kinds of securities, domestic and foreign, for its own account and without intermediation activity, and, in particular, to carry out the management and administration of such securities. It also carries out market studies and prospecting, and manages and allocates its own financial resources and those of the entities in which it has direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V	-	0.01%	99.99%	5272	(3,508)	76	-	1840	90	1930	Calle 8 No. 1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juarez (Mexico)	Development, design, manufacturing, fabrication, 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.
Arteche Chile, S.p.A	-	-	100%	1656	(1,956)	(41)	-	(341)	380	38	Derio Bidea 28 Mungia (Bizkaia, Spain)	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.	2308	97.01%	2.99%	123	1310	(98)	770	2105	(1,051)	1054	Ruta Nacional No. 9, Km 689, Barrio Ferreyra, Ciudad de Córdoba, Argentina	Real estate activity

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Esitaş Elektrik Sanayi ve Ticaret A.Ş (*)	-	-	100%	484	7117	3470	-	11071	(4,081)	6990	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%	1825	(1,996)	(128)	-	(299	272	(27)	17 Grosvenor Gardens, London SW1W 0BD, United Kingdom	Construction of utility projects for electricity and telecommunications.
Arteche Germany GmbH	-	-	100%	25	-	7	-	32	-	32	Emil-Riedel-Str. 7 80538 Munich 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 Andina region.
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(*) Companies acquired in 2021

(**) SAC has a participating loan of 3,000 thousand euros, which means that it is not subject to dissolution.

The information regarding group and jointly-controlled companies and associates as of Friday, December 31, 2021 is as follows:

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Electrotécnica Arteche Hermanos, S.L.	-	0.01%	99.99%	2006	45851	1707	-	49564	346	49910	Derio Bidea 28 Mungia (Bizkaia, Spain)	Purchase, sale and manufacture of all kinds of electrical appliances.
Electrotécnica Arteche Smart Grid, S.L.U.	-	-	100.00%	588	12696	4178	6000	23462	1212	24674	Derio Bidea 28 Mungia (Bizkaia, Spain)	Purchase, sale and manufacture of all kinds of electrical appliances.
Inversiones Zabalondo, S.L.	11469	99.98%	0.02%	777	12483	428	-	13688	-	13688	Derio Bidea 28 Mungia (Bizkaia, Spain)	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.	38069	99.98%	0.02%	7271	36641	1856	436	46205	-	46205	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, underwrite, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.
Arteche Smart Grid, S.L.U.	47984	100%	-	1317	25788	632	42435	70172	-	70172	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, underwrite, exchange and sell all kinds of securities, for its own account and without intermediation activity and, in particular, to carry out the activity of management and administration thereof.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Turnkey Solutions, S.A.	-	99.99%	0.01%	260	(22,172)	(49)	22961	1000	-	1000	Derio Bidea 28 Mungia (Bizkaia, Spain)	Promotion and development of companies by means of temporary ownership of their share capital.
Arteche Centro de Tecnología, A.I.E.	90	90%	10%	100	113	-49	-	163	66	229	Derio Bidea 28 Mungia (Bizkaia, Spain)	R&D projects related to technologies of interest to the energy generation, transmission and distribution sector and the incorporation of new technologies in products and their involved manufacturing processes.
Arteche North America, S.A. de C.V.	-	-	100%	22834	10847	1958	-	35639	(8,249)	27390	Km. 73,540. Ant. Carretera México-Querétaro Tepejí del Río de Ocampo State of Hidalgo (Mexico)	Manufacture and commercialization of instrument transformers, relays and automatic protection features for High, Medium and Low Voltage electrical installations.
AIT, S.A.	-	-	100%	14062	(8,691)	562	6318	12251	(9,608)	2643	Ruta 9, Km 689 Ferreyra Córdoba (Argentina)	Manufacture and commercialization of current transformers for high voltage electrical facilities.
Arteche EDC Equipamientos e Sistemas, S.A.	-	-	100%	49881	(44,705)	277	-	5453	(2,969)	2484	Rua Juscelino K. de Oliveira Curitiba State of Paraná (Brazil)	Manufacture and commercialization of electrical equipment and automatic protection features for power plants.
Arteche USA, Inc.	-	-	100%	1541	172	533	-	2246	(107)	2139	18503 Pines Blvd. Suite 313 Pembroke Pines (Estados Unidos)	Electronic and electrical equipment trading company.
Arteche ACP do Brasil Ltda	-	0.02%	99.98%	20144	(10,964)	97	-	9277	(9,141)	136	Rua Rodolpho Hatschbach, No. 725, 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%	11885	(2,210)	529	-	10204	3482	13686	Taiping Industrial Park Pulandian Dailian Liaoning Province (China)	Manufacture and commercialization of current transformers for high voltage electrical facilities.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Gas Insulated Transformers, S.L.U.	-	-	100%	540	(7,762)	(442)	-	(7,644)	44	(7,620)	Gerezpea, 15 Polígono Industrial de Jundiz Vitoria (Álava, Spain)	Manufacture and marketing of products related to the electricity and energy sector.
Arteche- Inael, S.L.	-	-	56%	1786	(151)	-	-	1635	-	1635	Derio Bidea 28 Mungia (Bizkaia, Spain)	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%-	5035	(6,017)	107	-	(875)	(603)	(1,478)	National Innovation Center,145 Australian Technology Park, 4 Cornwallis Street, Eveleigh New South Wales (Australia)	Design and research in the field of optical transformer.
Zizkua Inversiones, S.L.	317	15%	-	2110	(62)	-	-	2048	-	2048	Derio Bidea 28 Mungia (Bizkaia, Spain)	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	(1,241)	(5)	-	(535)	191	(344)	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	(5,087)	931	2200	(1,396)	163	(1,233)	Las Rozas (Madrid, Spain)	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.

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Arteche Ventures, S.L.	80	99.80%	0.20%	5	(164)	-	-	(159)	-	(159)	Derio Bidea 28 Mungia (Bizkaia, Spain)	To buy, subscribe, exchange and sell all kinds of securities, domestic and foreign, for its own account and without intermediation activity, and, in particular, to carry out the management and administration of such securities. It also carries out market studies and prospecting, and manages and allocates its own financial resources and those of the entities in which it has direct or indirect participation, and entities belonging to the same business group.
Arteche ACP, S.A. de C.V	-	0.01%	99.99%	3767	(2,384)	(56)	-	1327	(81)	1246	Calle 8 No. 1-B Fraccionamiento Industrial Alce Blanco Naucalpan de Juarez (Mexico)	Development, design, manufacturing, fabrication, 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.
Arteche Chile, S.p.A	-	-	100%	1656	(1,497)	(458)	-	(299)	374	75	Derio Bidea 28 Mungia (Bizkaia, Spain)	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.	2308	97.01%	2.99%	123	678	83	770	1654	(720)	934	Ruta Nacional No. 9, Km 689, Barrio Ferreyra, Ciudad de Córdoba, Argentina	Real estate activity

	Net carrying amount	Direct interest percentage	Indirect interest percentage	Issued capital	Reserves	Profit / loss for the tax year	Other shareholder contributions and other items	Capital and reserves	Other net equity items	Net equity	Address	Activity
Esitaş Elektrik Sanayi ve Ticaret A.Ş (*)	-	-	100%	484	4624	3300	-	8408	(2,396)	6012	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	305	(268)	-	934	54	988	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%	1825	(1,908)	(88)	-	(171)	184	13	17 Grosvenor Gardens, London SW1W 0BD, United Kingdom	Construction of utility projects for electricity and telecommunications.
	100317											

(*) Companies acquired in 2021
(**) SAC has a participating loan of 3,000 thousand euros, which means that it is not subject to dissolution.

Business model and strategy

Founded in 1946, the Arteche Group operates in the **electrical sector, from generation to distribution,** specializing in the electrical equipment, components, and solutions industry. The Arteche Group's business is focused on enabling the transmission and distribution of electric power from any generation plant to the end user with **efficiency, quality, and reliability.**

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

Segment	Description	Business
Measuring & Monitoring Systems	Measurement and protection of electrical power systems, covering the functions of current and voltage signals collection from power lines to bring them to values measurable by meters and protections, equipment responsible for energy billing and protection of the system's own assets	• Medium and high 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 and distribution automation systems)
Network reliability	Products and services that enhance the efficiency, reliability and stability of the power system. 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 in the rest of the products. All Arteche's products are aimed at **highly demanding and value-added** markets, such as renewable generation and the railway sector. That is why the company invests repeatedly in **R&D&I,** with the intention of improving the quality and efficiency of its products, innovating in the development of new solutions, essentially offering the customer a differential added value.

Arteche's **customer base** is highly diversified, with utility companies such as electricity boards 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** and has **commercial distribution** capabilities, as well as **13 factories** in the EMEA, North America, Latin America and Asia-Pacific regions, including **6 dedicated research centers.** Arteche's workforce consists of more than **2,500 employees** worldwide.

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

- **Improve the value proposition:** Improve and strengthen competitive advantages in the market by developing high value-added solutions and services in the product portfolio.

- **Geographic expansion:** To increase 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:** Identify new market segments, complementary to its value offer, such as the railroad sector and energy-intensive industrial companies, among others.

- **New lines of business:** Development of new business lines to add to the current portfolio (e.g. asset management technologies).

- **New technologies:** Strengthen our commitment to innovation and development of new technologies that will allow us to remain at the forefront of market value.

- **New solutions:** Development of new solutions focused on the transformation of the electricity sector, such as electrification, digitization, decarbonization, decentralization and integration of renewable energies

Business evolution

Macroeconomic context

2022 has again been marked by a **very complex health, geopolitical and macroeconomic situation,** compounded by Russia's invasion of Ukraine in February 2022. This economic and social context has been characterized by **escalating energy prices, disruptions in the supply chain, shortages and rising prices of materials** essential for the manufacture of electrical equipment and increased labor costs.

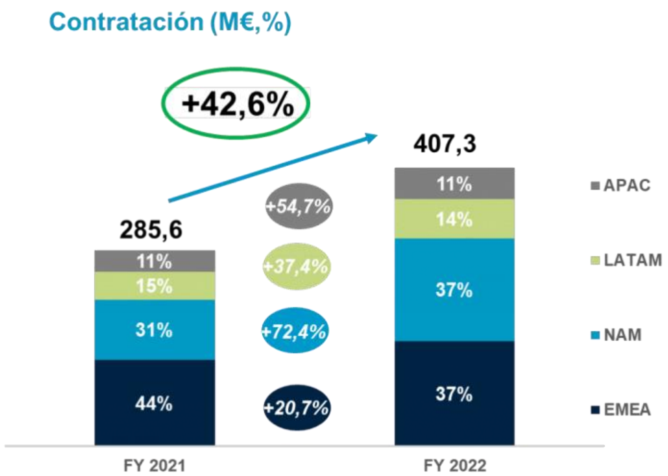
Although the geopolitical framework resulting from the Russian invasion in Ukraine and the possible world recession have affected the global economy in 2022, **the impact has been very different depending on the country.** Europe and, to a lesser extent the United States and Mexico, have been mainly affected by inflationary tensions and economic uncertainty, while other regions such as China and Brazil have been able to recover growth after the last effects of COVID-19 in the first half of the tax year. Inflation in Argentina and Turkey has remained at very high levels of 94.8% and 64.3%, respectively.

All these macroeconomic tensions have been passed on to **interest rates and currencies** through the application of tighter central bank policies. The ECB has raised the main refinancing rate in 2022 on several occasions to 2.5% at the end of the tax year. For its part, the Federal Reserve has increased them to 4.5%.

During 2022, the **exchange rates** of Arteche's main reference currencies, the U.S. dollar, the Mexican peso and the Brazilian real, appreciated against the euro (6%, 5.6% and 6.5%, respectively), except for the Argentine peso, the Chinese yuan and the Turkish lira, which depreciated by 72.5%, 9.2% and 40%, respectively.

At the sector level, there has been **significant investment by electricity boards** in the Distribution, Transmission and Generation segments, which is expected to continue at very high levels in the coming decades. Investment in renewables has continued to occupy a central role in 2022, following a clear increase in commitments to combat climate change in 2021.

Performance and trends in order intake (orders)



In **the tax year 2022,** the Arteche Group achieved order intake of **407 million euros (€m),** exceeding the target of its 2020-2023 business plan by 24% and growing by **43% compared to the previous year.** Organic growth, excluding the figures of the Turkish Esitas group, acquired in July 2021, was 30% versus the previous year.

This increase was **driven** both by the **Group's three business segments** (i. metering and systems monitoring, ii. transmission and distribution network automation and iii. network reliability) and by **all the geographical areas** in which the company operates (EMEA, North America, Latin America and Asia-Pacific). All of them are growing, driven by the significant investment made by electricity boards in the Distribution, Transmission and Generation segments, which will continue at very high levels in the coming decades.

The **EMEA** region, which accounted for **37% of the Group' s total order intake** in 2022, reached €153 million, **up 21% on the previous year,** thanks to countries such as Spain, the Nordic countries, the United Kingdom and the Middle East, with strong growth in all business segments.

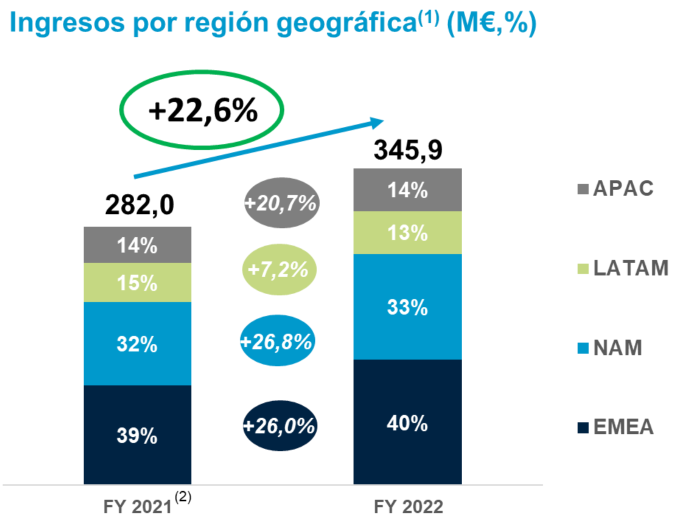
North America, which accounted for **37% of total order intake,** reached €151M, up **72% from the previous year,** driven mainly by the United States, which grew 138% to €90M. This country is currently the leading market in terms of order intake for the Arteche Group, driven by significant growth in all business segments. In this way, we have managed to increase our market share in the systems measurement and monitoring segment (high and medium voltage) and to make the Power Quality business take off, driven by the strong investment in renewable energies. Mexico grew by 22%, driven by the significant investment of Compañía Federal de Electricidad (one of the Arteche Group's main customers) in both its Distribution and Transmission networks.

The **Latin America** area **(14% of the total)** reached €57M, growing by **37% compared to 2021** and demonstrating a clear recovery after the hiatus caused by the COVID-19 pandemic in this region in particular. Specifically, Brazil grew by 35% and Argentina recovered pre-pandemic volumes.

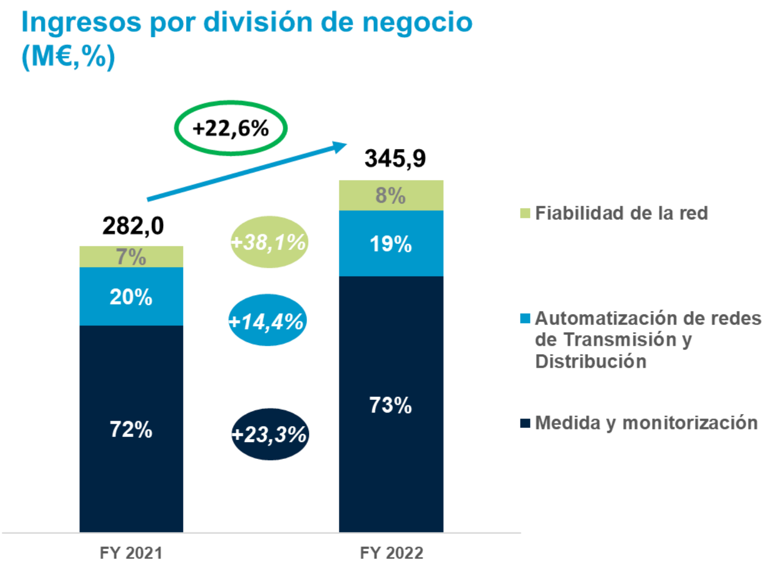
Finally, the **Asia-Pacific** zone **(11% of the total)** grew by **55%** as a result of post-COVID recovery in Southeast Asia (Thailand, Vietnam and Malaysia) and penetration in Australia, a market driven by strong investment in renewable generation.

Expectations for 2023 remain **positive** and point to **close to double-digit growth**, driven by continued strong investment in renewable generation and in the automation of transmission and distribution networks in all geographies.

Turnover performance



(1) Ventas por destino: EMEA (Europa, Oriente Medio y África), NAM (México, USA y Canadá), APAC (Asia Pacífico y Turquia), LATAM (América Central y del Sur).
(2) En los datos de ingresos de FY 2021 por región geográfica se ha reclasificado la facturación de Turquia a la region de APAC.



Group revenues grew by **23%** to **346 million euros** in 2022. All business segments and geographic regions grew at double-digit rates.

It is worth highlighting the growth in the **measurement and monitoring systems** segment (73% of total turnover), following the incorporation in the full year of the business of the ESITAS Group (regional leader in the manufacture of medium voltage transformers with factories in Turkey and Indonesia), acquired in July 2021, which places the Arteche Group in the **top 5 manufacturers of medium voltage equipment in Europe.**

The **transmission and distribution network automation** division (19% of total revenues) grew by **14%,** 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.

The **network reliability** business (8% of total revenue) **is recovering** after the impact on activity due to COVID-19, which led to a significant decrease in investments by utility companies in Brazil in 2021. In 2022, these investments were again reactivated, driving growth in this segment for the tax year to 30 million euros, **up 38%** on the previous year.

Profit / loss evolution

miles de Euros	31/12/2022	31/12/2021
Cifra de negocios	**345.903**	**282.033**
Margen Directo	103.045	88.807
Margen Directo/Ingresos (%)	29,7%	30,6%
EBITDA	**30.126**	**26.097**
EBITDA/Cifra de negocios (%)	8,7%	9,3%
Beneficio Neto	**7.686**	**8.543**
Beneficio Neto/Cifra de negocios (%)	2,2%	3,0%
Beneficio por acción	**0,13**	**0,16**

Revenues increased **23%** compared to the previous year **(+17%** in constant currency), driven by the positive contribution of all businesses.

The **direct margin** decreased 0.9 percentage points as a result of the increase in commodity and logistics costs, cushioned by the policy of adapting sales prices to this new cost situation through the negotiation of framework agreements, price adjustment clauses and by increasing sales prices in new offers.

EBITDA increased with respect to the previous year, with the margin remaining stable at around 9%, as a result of the higher turnover and with a positive effect of exchange rates. . Fixed costs as a percentage of sales remained at around 24%.

Finance costs increased as a result of increases in reference interest rates applied by financial institutions, due to the generalized increase in interest rates carried out by central banks at a global level in order to contain the effects of inflation. To mitigate this effect, Arteche has hedged 81% of total long-term loans with fixed interest rate agreements and with variable interest rate hedging agreements.

Net income amounted to 7.7 million euros, negatively impacted by the effect of hyperinflation in Turkey, which had a negative effect of 1.4 million euros on the income statement, of which 0.7 million euros is included in the financial result figure. Excluding this effect, net income for the tax year totaled 9.0 million euros, an increase of +5.8% compared to the previous year.

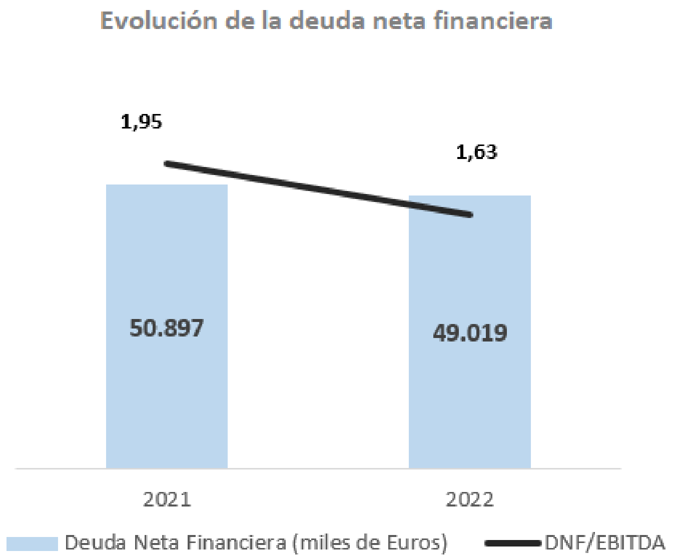
Balance sheet performance

miles de Euros	31/12/2022	31/12/2021
Deuda financiera neta	**49.019**	**50.897**
Deuda financiera neta/EBITDA	**1,63 x**	**1,95x**
Fondos Propios	99.476	91.570
Patrimonio neto	**69.044**	**58.513**

Strengthened shareholders' net equity as a result of the good performance and the positive evolution of foreign currencies.

This includes the **distribution of a final dividend to shareholders** (paid on July 6, 2022), which amounted to 2.6 million euros or 4.5 euro cents per share.

Net Financial Debt is reduced by 1.9 million euros, resulting in the **leverage ratio** (Net Financial Debt / EBITDA) **improving** compared to last year **to 1.63 times as of December 2022** (versus 1.95 times as of December 31, 2021).



Shareholder value creation

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 comprises 57,094,013 shares of €0.10 par value each, of the same class, and fully paid up.

With regard to share price performance, as of December 31, 2022, the share **appreciated by +8.0% compared to the close of 2021**, ending the tax year at €3.90 per share and thus outperforming other benchmark indices such as the Ibex Growth Market 15 (-2.1%), the Ibex Growth All Share (-0.9%) and the Ibex Small Cap (-12.8%), as shown in the graph below:

Arteche's share price performance

In comparative percentage terms, base 2021

Arteche's main stock market indicators

	2022	2021
Capital admitido (miles de euros)	5.709	5.709
Nº de acciones (x 1.000)	57.094	57.094
Precio cierre periodo (euros)	3,9000	3,6100
Último precio periodo (euros)	3,9000	3,6100
Precio máximo periodo (euros)	4,0000	4,3500
Precio mímimo periodo (euros)	2,7400	3,3500
Capitalización (miles de euros)	222.667	206.109
Volumen (miles de acciones)	2.308	2.982
Efectivo (miles de euros)	7.453	11.627

Acquisition of treasury stock

As indicated in Note 13 to the annual financial statements, during 2022 there have been movements in the purchase and sale of treasury stock under the contract with the Liquidity Provider (Norbolsa S.A.) amounting to a total of 128 thousand euros net. The difference between the cost price and the selling price has been recorded under "Voluntary reserves".

Shareholder remuneration

Total shareholder remuneration charged to 2021 profit / loss amounted to **€0.045 per share** (final dividend paid on July 6, 2022), equivalent to the distribution of **30% of the Group's net income** for 2021.

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.

Investments

Investments in **intangible fixed assets** (€6.9 M) are mainly composed of R&D activations (€5.9 M) materialized in technology development projects that will lead to improvements in the range of products manufactured by the Group and for which future profits and positive profit / loss are expected.

Investments in **property, plants and equipment** amounted to €7 million. Within this figure, this year's highlights include the move to a **new plant in Esitas Turkey,** which doubles the current production capacity to meet the increase in the order book, as well as the **new high voltage laboratory in Mexico**, together with the usual technical installations and machinery associated with the replacement and improvement of production processes.

Research and development activities

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

The Group's priorities are geared towards developing actions focused on achieving an energy transmission and distribution network that allows for an efficient, reliable and sustainable integration of the new circumstances regarding the energy transition (renewable technologies, electrical interconnections, electric vehicles, energy storage, etc.).

Arteche has been working on innovation since its very beginning, holding a firm conviction that investment in R&D&I is essential in order to maintain a good competitive position in the market, growth and sustainability.

Arteche's R&D&I strategy challenges

Energy, Sustainability, Technological, Innovation and Social Challenges

In the challenge full of opportunities that the energy transition opens up for us, we are aware that one of our greatest contributions of value lies in focusing our innovative know-how:

- Generate new business by introducing the concept of service associated with the product
- To offer high value-added solutions and incorporate them into our product portfolio
- To develop innovative technologies to be at the forefront of the industry
- Implement new tools in line with the sustainability of the business

R+D+i projects

Technological Innovation and Products

Arteche's strategic lines are outlining the R&D&I roadmap for the coming years in order to offer **Innovative and Sustainable Solutions** resulting from the application of groundbreaking technologies in the development of our new products.

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.

We are certified in the IEC 62443 standard

Cybersecurity encompasses not only Information Technology (IT) but also Operations Technology (OT), which is critical to future trade.

Our commitment to cybersecurity is realized through our own specialized laboratory: "**Arteche Cybersecurity Lab**"; an isolated space, both physically and digitally, with all the security measures its criticality demands, where we perform cybersecurity tests.

IEC 62443 is an international series of standards that addresses cybersecurity for operational technology in automation and control systems, such as those developed by Arteche.

That is why we have adapted the life cycle of our products to this industry benchmark standard, which establishes the process requirements for developing and maintaining cyber insurance products.

Aware of the importance of review by a trusted third party, we have certified our management system, according to the IEC 62443 standard, with TÜV Rheinland.

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 else, represent a firm commitment to customer satisfaction within a context of increasingly rapid responsiveness, in a cleaner, more efficient and effective environment with safety being enhanced every day.

Outlook for the group

The sector to which Arteche's activity belongs, the **manufacture of electrical and electronic capital goods**, is at a high point of development.

All **global trends**, such as the reduction of the CO2 footprint, the integration of renewable energies, the increase in electricity interconnections, the digitalization of the electricity grid, etc., are in favor of the **group's strategy**. Arteche is in a key sector at a vital time: the energy sector is the tractor for all these challenges.

It is not surprising, therefore, that the portfolio has grown strongly over the past few years, resulting in **double-digit revenue growth**.

All studies published by independent third parties show that these tailwinds will continue in the coming years, and this will be reflected in the preparation of the **new 2023-2026 strategic plan**, which is **expected to be made public in the last quarter of fiscal 2023.**

We are therefore convinced that Arteche is in the right sector at the right time.

In this favorable market context, Arteche is making progress in the **execution of its investment plan,** which includes specific projects aimed at growing the business as well as developing the sustainability of operations. As a result, Arteche's industrial perimeter is now stronger despite persistent external difficulties in supply chains and energy cost increases.

Arteche's main challenge is to **execute the portfolio efficiently and profitably**.

To this end, over the last few years, the Arteche group has taken measures, including the **diversification of our supply chain** (bringing it closer to our factories, thus also improving our sustainability objectives), the **elimination of single suppliers**, **efficiency measures in the supply of the energy we consume,** etc. All these measures should contribute to **improving our competitiveness** and **strengthening operating margins by 2023**.

In any case, the group's long-term guidelines will remain firmly focused on ensuring **financial discipline** and **return on invested capital**.

In closing, we would like to give a positive message of commitment to the future. Arteche is a company that has been in existence for more than 75 years and has been able to overcome the cycles of the electrical equipment business. The situation is positive and it is in the hands of our experienced team to achieve our objectives.

Sustainability

Policy and strategic plan

The **2022-2030 Strategic Sustainability Plan** approved by Arteche's Board of Directors in 2021 is the culmination of the integration of ESG aspects in Arteche's strategy, in its daily activity, in its operational decisions and in its relations with the different stakeholders and demonstrates the commitment of the highest executive body to a comprehensive sustainable strategy.

This plan was developed in 2020 with contributions from the different transversal areas that participated in the sustainability committees and the Management Committee and was approved in 2021, after carrying out an exercise to select and align the GRI indicators with the objectives set.

In this process we reflected on the best way to join the 2030 Agenda, and after listening to stakeholders and assessing the ability to impact the different SDGs (Sustainable Development Goals) Arteche decided to focus on the following:

This commitment is materialized via the following fundamental aspects:

- Generate quality employment in optimal and safe conditions for workers
- Prioritize efforts to reduce emissions, use resources efficiently and minimize and correctly manage waste in operations
- Develop the internal talent of the people and incorporate and attract the best talent for the project
- Advanced development of knowledge management
- Adding value to customers
- Respecting human rights
- Fair practices during our production processes

The 2022 Non-Financial Statement, an integral part of this Management Report, details the performance of the Arteche Group in the main ESG material scope.

Trade risks

Financial Risks

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.

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.

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.

The maximum exposure to credit risk as of December 31, 2022 and 2021 is as follows:

	In thousands of euros	
	2022	2021
Non-current financial investments (except equity instruments)	2731	1260
Trade and other receivables (except balances with public administrations)	56631	39628
Short-term financial investments	3305	2011
	62667	**42899**

As part of its policy to reduce exposure to risk, the 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 2022 tax year, 377 thousand euros have been recorded as impairment in the provision for significant bad debts charged to income for the period (in the 2021 the tax year an impairment of 445 thousand euros 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 Finance Department of credit control 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 Finance Department of credit control 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.

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 transaction 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, exchange rate risk, raw materials price 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 primarily due to the need to adequately structure financing, part of which is obtained through non-current loans and credit facilities that accrue a variable interest rate.

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. The hedging instruments that are specifically assigned to debt instruments have the same maximum nominal amounts.

The Arteche Group hedges interest rate risk on cash flows mainly through interest rate derivatives. 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 via the contracting of derivatives for a total notional value as of December 31, 2022 of 43.1 million euros, having hedged the interest rate variation risk of approximately 74% of the long-term debt contracted at variable rates. If we also take into account the loans already contracted at a fixed rate, Arteche now has interest rate risk coverage for approximately 80% 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 the tax years 2022 and 2021, 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 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 capital and reserves.

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.

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 significant source of operating costs 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 the 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 the Income Statement" is not significant given the low importance of these investments in the context of the Group's total assets and the capital and reserves.

The acquisition of shares in unlisted companies must be approved by the Board of Directors of the Parent Company.

On December 31, 2022 the maximum exposure to price risk on equity instruments amounted to 245 thousand euros (323 thousand euros as of December 31, 2021).

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 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.

	Millions of euros	
	2022	**2021**
Gross financial debt	**107.5**	**111.3**
Bank borrowings (including finance leases)	**38.8**	**53.7**
Syndicated loan	19.5	24.4
Other financial institutions	19.3	29.3
Other financial liabilities	**68.7**	**57.6**
Alternative Fixed-Income Market (MARF)	26.0	27.5
European Investment Bank (EIB)	19.9	15.0
Instituto de Crédito Oficial (ICO)	16.0	6.5
Cofides	5.9	6.6
Other (excluding free financing)	0.9	2.0
Liquid assets	**(58.5)**	**(60.4)**
Cash and cash equivalents	(56.2)	(58.7)
Other cash equivalents	(2.3)	(1.7)
Net financial debt	**49.0**	**50.9**
Unused lines of credit and discounting bills	43.7	40.0
Undrawn portion of syndicated loan	5.0	5.0
Undrawn portion of EIB and ICO	-	25.5
Undrawn MARF Commercial Paper programs	24.0	22.5
Availabilities	**72.7**	**93.0**

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

In addition, at the end of 2022, the Group had authorized non-recourse factoring lines of 48,322 thousand euros via various financial institutions (35,587 thousand euros in 2021), as well as supplier payment management lines of 61,063 thousand euros (31,412 thousand euros in 2021).

In addition, the following table details the working capital presented in the Group's consolidated balance sheet as of December 31, 2022 and 2021:

		Millions of euros	
	Notes	**2022**	**2021**
Current asset		**210.7**	**183.6**
Current operating asset		**150.6**	**122.2**
Inventories	10	72.2	61.8
Trade and other receivables	11	78.4	60.4
Operating non-current asset		**60.1**	**61.4**
Short-term financial investments		3.3	2.0
Short-term accruals		0.6	0.7
Cash and cash equivalents	12	56.2	58.7
Current liabilities		**(182.0)**	**(150.3)**
Current operating liability		**(123.6)**	**(93.8)**
Trade and other payables		(123.6)	(93.8)
Non-current operating liability		**(58.4)**	**(56.56)**
Current creditors	18	(57.6)	(55.2)
Current provisions	17	(0.8)	(1.3)
Working capital		**28.7**	**33.3**

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 2023.

d) Debt and solvency risk

As of December 31, 2022, the Arteche Group recorded a consolidated net financial debt of 49.0 million euros, a 3.7% reduction when compared to the end of the previous year.

As a result, the financial solvency indicators at the end of 2022 reflect a debt equivalent to 1.63 times the EBITDA operating result for the last twelve months (compared to 1.95 times in 2021), thereby demonstrating the financial capacity of the business and the stability of Arteche's equity position.

The financing structure's core focuses on non-current syndicated financing, working capital framework agreements, 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 the 2022, these commitments have been fulfilled. Management monitors changes in debt based on several indicators:

- Net Financial Debt / EBITDA
- Net Financial Debt / Capital and Reserves
- EBITDA / finance costs:

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 that undrawn credit lines and trade discount facilities amount to 25.2 million and 18.5 million euros, respectively (21 million and 19 million euros at the end of 2021, respectively).

Risks arising from the Ukraine-Russia conflict

The Ukraine-Russia conflict that began in February 2022 poses a risk of uncertainty in global markets due to possible embargoes or sanctions that may be applied to companies in those markets or possible disruptions in supply chains.

As of December 31, 2022, the Group has no assets in either Russia or Ukraine and turnover in both countries has been immaterial.

The indirect impacts of this conflict are evident in the supply chain, as well as in the higher prices of energy and other raw materials such as copper. Although the Group's production processes are not electricity-intensive, contracts with electricity utilities in European plants have been renegotiated. In the case of commodities such as copper, in addition to the supplier and market diversification measures monitored by the Purchasing Department, in 2023 the Group began to contract financial derivatives (commodity swaps) to hedge their volatility.

Additionally, the increase in inflation and interest rates during the tax year 2022, derived from this geopolitical risk, has been considered in the discount rates applied and the sensitivity analysis performed on the recoverability tests of non-financial assets, including goodwill (Notes 6 and 7).

Climate change risks

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

The Arteche Group, through its 2030 Sustainability Strategic Plan, has defined short and long term emission reduction objectives, taking as a reference the carbon footprint calculations for the tax year 2021.

During the tax year 2022, and with the objective of responding to the development of actions to mitigate the risks and opportunities of climate change, work has been done to specify its Risk Management System to the emerging risks of climate change. For this purpose, 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 Finance. The project started in 2022 by assessing the physical risks (acute and chronic) at each location. In 2023, a more comprehensive analysis of transition risks (regulatory, market, technological, reputational, etc.) will be addressed, according to TCFD.

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

The corporate EHS (Environment, Health and Safety) Department is 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 the tax year 2022:

- Environmental performance measurement by the CDP (Carbon Disclosure Project), obtaining the same rating as the average of the companies in our sector and the global average of disclosures made (C)

- Commitment to the SBTi (Science-Based Targets Initiative), with the development and implementation of our science-based targets.

As of December 31 in 2022 and 2021, the Group's production facilities were not located in areas or geographical zones where an imminent climate risk is foreseen, which should be considered in the assumptions of recoverability of non-financial assets, including goodwill. In this regard, for the assumptions used in the asset impairment analysis described in Notes 6 and 7, the Group has considered macroeconomic variables that implicitly take into account the impacts that climate change may have in each of the geographical areas in which it operates.

Average payment period for suppliers

During 2022, the average payment period of the Group's companies located in Spain was 81 days, as indicated in note 18.2 of the notes to the consolidated annual financial statements.

Events after year-end closing

Subsequent to year-end, and up to the date of preparation of these annual financial statements, no significant events have occurred that could have a material effect on the annual financial statements for the tax year 2022.

Statement of Non-Financial Information - 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 2022 Statement of Non-Financial Information is included as an Appendix to this Consolidated Management Report.

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APPENDIX: ALTERNATIVE PERFORMANCE MEASURES (APM)

APM	Unit	Definition	2022	2021	Usefulness
Gross operating profit / loss (EBITDA)	Thousands of euros	Operating profit / loss + Depreciation of fixed assets + Impairment of trading operations + Impairment of merchandise + Impairment of work in progress and finished goods	30,126 Thousand euro = 14,322 + 14,667 + 44 + 306 + 787	26,097 Thousand euro = 12,515 + 11,615 + 654 + 162 + 1,150	APM of operating profitability excluding interest, taxes, depreciation and amortization. Used by the Management to assess the operating cash flow generation capacity of the operating segments.
% EBITDA	%	EBITDA / Net sales	8.71% = 30,126 / 345,903	9.25% = 26,097 / 282,033	APM of % of operating profitability excluding interest, taxes, depreciation and amortization.
Direct costs	Thousands of euros	Procurements (excluding depreciation and extraordinary costs) + Direct personnel expenses + Other direct operating expenses	€244,458 thousand = 197,270 + 28,493 + 18,694	€201,735 thousand = 161,693 + 23,712 + 16,330	APM used by the Management to measure which operating expenses are directly attributable to each operating segment.
Revenue at selling price	Thousands of euros	Net sales - change in inventories at selling price	€347,503 thousand = 345,903+ 1,600	€290,542 thousand = 282,033+ 8,509	APM used to measure production and other revenue at selling price
Gross margin	Thousands of euros	Revenue at selling price - direct costs	103,045 Thousand euro = 347,503 - 244,458	88,807 Thousand euro = 290,542 - 201,735	APM of operating profitability used to evaluate the generation of earnings at selling price without considering those expenses that are not directly attributable to the operating segments.

APM	Unit	Definition	2022	2021	Usefulness
% gross margin	%	Gross margin / Revenue at selling price	29.7% = 103,045 / 347,503	30.6% = 88,807 / 290,542	MAR of % operating profitability to evaluate the generation of profit / loss at selling price without overheads
Gross Financial Debt (GFD)	Thousands of euros	Bank borrowings + other financial liabilities + lease payables + bonds and other marketable securities (all long-term and short-term) - financing at no cost	107,498 Thousand euro = 39,180 + 53,883 +164 +26,000 -11,729	111,300 Thousand euro = 53,497 + 43,104 +999 +27,500 -13,800	APM used by Management to assess the gross debt level, considering financing with costs only
Net Financial Debt (NFD)	Thousands of euros	GFD - Short-term financial investments - loans and advances to (non-group) companies - cash and cash equivalents	€49,019 thousand = 107,498 – 2,266- 56,213	€50,897 thousand = 111,300 –1,694- 58,709	APM used by management to assess the level of net debt
Net Financial Debt / EBITDA	X times	NFD / EBITDA	1.63x = 49,019 / 30,126	1.95x = 50,897 / 26,097	APM with the objective of showing the degree of leverage of the Group, based on the ability to repay the operating cash flow NFD.
Profit per share (basic and diluted)	€/share	Profit attributable to the Parent Company / (weighted average issued shares - weighted average treasury stock)	€0.13 = 7,686 / (57,094– 140)	€ 0.16 = 8,543 / (53,714– 75)	Profit / loss attributable to holders of ordinary instruments of the Company. The basic and diluted shares in Arteche do not differ, with only ordinary shares being issued.

ARTECHE LANTEGI ELKARTEA, S.A. and Subsidiaries
Preparation of the Consolidated Annual Financial Statements and Consolidated Management Report for the tax year 2022

The Board of Directors of the company Arteche Lantegi Elkartea, S.A. on March 22, 2023, and in compliance with the requirements established in Article 253 of the Capital Companies Act and Article 37 of the Code of Commerce, proceeds to prepare the Consolidated Annual Financial Statements and the Consolidated Management Report for the tax year ended December 31, 2022, 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